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THE CONTROL OF INDUSTRY

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INTRODUCTION TO THE SERIES

By the General Editor

SHORTLY after the war of 1914–18 there seemed to be a place for a Series of introductory Economic Handbooks "intended to convey to the ordinary reader and to the uninitiated student some conception of the general principles of thought which economists now apply to economic problems."

This Series was planned by Mr. J. M. Keynes under the title *Cambridge Economic Handbooks*, and he wrote for it a general Editorial Introduction of which the words quoted above formed part. In 1936 Mr. Keynes handed over the editorship of the Series to Mr. D. H. Robertson, who held it until he became Professor of Economics in the University of London.

The judgment of its originators has been justified by the wide welcome given to the Series. Apart from its circulation in the British Empire, it has been published from the start in the United States of America while translations of the principal volumes have so far appeared in German, Spanish, Italian, Swedish, Japanese, Polish and Lithuanian.

It is symptomatic of the changes which have been taking place in recent times in the development of economic science, changes associated in a high degree with the work and influence of Mr. Keynes himself, that within the brief space of fifteen years the text

of part of the Editorial Introduction should have stood in need of revision. In its original version the last paragraph of the Introduction to the Series ran as follows:

> "Even on matters of principle there is not yet a complete unanimity of opinion amongst professors. Generally speaking, the writers of these volumes believe themselves to be orthodox members of the Cambridge School of Economics. At any rate, most of their ideas about the subject, and even their prejudices, are traceable to the contact they have enjoyed with the writings and lectures of the two economists who have chiefly influenced Cambridge thought for the past fifty years, Dr. Marshall and Professor Pigou."

When the Editorship of the Series was transferred to Mr. D. H. Robertson, Mr. Keynes consented to the retention of his general Introduction, but subsequently re-wrote the concluding paragraph in the following form:

> "Even on matters of principle there is not yet a complete unanimity of opinion amongst professional students of the subject. Immediately after the war daily economic events were of such a startling character as to divert attention from theoretical complexities. But to-day, economic science has recovered its wind. Traditional treatments and traditional solutions are being questioned, improved, and revised. In the end this activity of research should clear up controversy. But for the moment controversy and doubt are increased. The writers

of this series must apologise to the general reader and to the beginner if many parts of their subject have not yet reached to a degree of certainty and lucidity which would make them easy and straightforward reading."

Still more recent events have produced a world so far removed from that which existed when the foregoing words were written, that it has fallen to the lot of the present Editor to provide a new Introduction.

This is perhaps a good vantage point from which to survey very briefly some of the principal trends in the evolution of economic thought in this country during the past thirty years. Prior to 1914 economic theory here was largely dominated by Alfred Marshall; and economists, following him, thought in terms of the long period tendencies of the different sections of the economic system towards positions of equilibrium, even though ever-present dynamic factors were perpetually modifying the existing structure and presenting new and equally distant, if equally unattainable, goals as stimuli to change and adaptation. Moreover, in the Marshallian system, those tendencies resulted from the working of persistent underlying forces which were conceived of as largely competitive in character. The increasing trend towards monopoly was certainly affecting thought, but not so much in the realm of the theory of value, as in the emphasis which came to be laid on possible discrepancies between the private interest and the social interest. Under the influence of Professor Pigou a Welfare Economics was developing side by side with, and out of, the Value Economics of the older generation.

After 1918 the long-drawn-out agony of the depressed areas, the weakening of the position of this country in international trade, and the tremendous intensity of the economic crisis of 1930–32 (to mention but a few out of the many contributing causes) combined, on the one hand, to focus attention on problems of the short period and, on the other hand, to throw doubt on the extent to which the self-adjusting, seemingly automatic mechanism, which on the whole had operated so effectively during the nineteenth century, was capable of coping with the deep-seated maladjustments and disharmonies which characterised the post-war world. At the same time value theory itself was profoundly influenced by the emergence of a number of writers who approached value problems from the view-point of monopoly, and emphasised the unrealistic nature of an analysis which was based on the assumptions of perfect competition and a perfect market. Most of all, however, economic thought was dominated by the desire to find a solution for the problem of how to maintain the level of effective demand so as to avoid the recurrence of phases of deep depression and widespread unemployment. There was a growing feeling of impatience with the economics of the long period "in which we are all dead", and a great, perhaps even excessive, concentration on the short period in which we live and move and have our being.

The result was a remarkable ferment of ideas, the challenging of ancient orthodoxies, and "for the moment controversy and doubt [were] increased." This ferment had by no means subsided when the second war with Germany broke out in September 1939,

bringing in its train a degree of State interference with the normal peace-time working of the economic system far exceeding that reached even in the last years of the war of 1914–18.

In so far as it is possible to foresee future trends, they would seem to lie in a much greater measure of conscious public control over many aspects of economic activity than has existed in the past. It will no doubt still remain true, to quote Mr. Keynes's Introduction again, that:

> "The Theory of Economics does not furnish a body of settled conclusions immediately applicable to policy. It is a method rather than a doctrine, an apparatus of the mind, a technique of thinking, which helps its possessor to draw correct conclusions."

Nevertheless, economists may well find themselves to a greater degree than hitherto called upon to express their views on matters of economic policy, and—for a time at least—the writers of future volumes of the Cambridge Economic Handbooks may be concerned rather with specific problems than with the more general aspects of economic theory.

C. W. G.

Cambridge,
April, 1941.

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CHAPTER I

INTRODUCTORY

"Ahem!" said the Mouse, with an important air. "Are you all ready? This is the driest thing I know. Silence all round, if you please."

Alice's Adventures in Wonderland.

§ 1. *The Scope of the Discussion.* The practical economic questions which arouse controversy and await solution at the present time may all be conceived of as compounded in various manners out of three central problems. There is first the problem of production—how, if at all, is it possible to support the growing population of the world at a constantly rising standard of comfort? There is secondly the problem of distribution—how, if at all, can the fruits of industrial progress be divided in a manner more productive of human welfare and more consonant with our ideas of justice? And there is thirdly the problem of government or control—how, if at all, can we ensure that the men and women engaged in industry shall not become mere instruments of production or mere passive

receptacles of its fruits, but shall retain, in their relation to the economic circumstances of their life, the character of self-directing human beings ?

It is on the last of these problems that this book is intended to throw light. What is the structure of the economic organization by which the forces of Nature are exploited, and our wants in some measure supplied ? In what directions is this organization being modified at the present time, or capable of modification in the reasonably near future ? Such are the main questions which will be here discussed. Not that this problem of government can be examined in entire isolation from the problems of production and distribution. Demands for changes in the methods of conducting industry are in practice inextricably bound up with demands for changes in the apportionment of its product. And neither the predominant forms of industrial organization nor the manifold schemes for their supersession or improvement can be clearly understood or fairly judged unless we have at the back of our minds a picture of Man, eager to enjoy and to beget, lodged precariously on the surface of a finite planet, and arguing distractedly with blind forces the eternal question of his daily bread.

But for our present purpose these problems of production and distribution must be kept somewhat resolutely in the background. And there is another boundary also which we must endeavour not to cross. If we are going to use the phrase "control of industry" at all, we cannot make too early a distinction which though familiar is still often neglected—the distinction between what may be called respectively "positive" and "negative"

control. We have to discover how our industrial order works and who works it, and not how its working is in various manners and for various purposes inhibited and checked. By an elaborate code of commercial law, company law, factory law and so forth, the modern State fetters in numerous ways the actions of those who are actually responsible for the conduct of business. By means of an intricate network of written and unwritten convention, of open and invisible pressure, organized Labour limits the conditions under which work can be carried on. But it is only in so far as the State or Labour actually assumes or proposes to assume responsibility for getting things done, as contrasted with setting limits to the methods of their doing, that the operations of either will come within our scope. Here, again, the line will sometimes be difficult to draw; *control which in origin or purpose is negative and* obstructive may develop by the force of events into control which is positive and constructive; but unless such a distinction is made, our canvas will become overcrowded, and the significant outline of the industrial structure impossible to preserve.

One more matter of definition. "Industry" is an elastic word, capable of various breadths of meaning. In the title of this book it is used to cover the whole series of processes by which desirable things are extracted from the earth, fashioned and transformed by man, carried from place to place, and stored through time and placed in the hands of those who are ready to pay for them. But it will sometimes be convenient to use the word more narrowly, and to develop our argument and analysis with reference only to the second of these

stages, commonly called manufacture, since it is there that the distinctive features of the modern industrial order are often most clearly revealed.

§ 2. *The Underlying Principles of Modern Industry.* When we take a first glance at modern industry with a view to discovering the method of its government, the first fact which strikes us would be startling, if it were not so familiar. It is that the most obvious economic problem which confronts the inhabitants of any country or of the world as a whole does not appear to be submitted to any deliberate or conscious decision at all. That problem is to determine how the limited natural resources of the community, its limited flow of savings. its limited equipment of human brains and hands, is to be allocated between the infinity of different uses in which they are capable of yielding a harvest of enjoyment. In the main this momentous decision is left to the operation of what are somewhat vaguely termed natural forces, acting through the desires and activities of disconnected individuals. The final arbiter is the scattered army of consumers, whose freely expressed preferences and aversions attract and repel the community's resources in this direction and in that. The immediate agent is the more compact but still very heterogeneous company of the leaders of business, who severally decide what shall be produced and in what quantities, in accordance with the evidence that reaches them of the desires of consumers. How Value or Price stands at the centre of this system, or lack of system, acting as finger-post or danger-signal to consumers and producers, and exercising a sway more absolute than

that of an oriental emperor or Russian Commissary: how the use of Money in the main oils the wheels of the machine, and in detail often throws it out of gear: the merits and defects of the whole arrangement—these things have been broadly discussed in the first two volumes of this series. In this volume we shall be concerned in the main with narrower issues—with the nature and composition of that company of immediate agents who direct the processes of business, none of them (in his business capacity at least) visualizing the economic problem of society as a whole, but each working in his own comparatively narrow field. But now and again, even in our study of what is, we shall become aware that various agencies—notably the powers of Finance and of the State—are sometimes more concerned than would at first sight appear with the major problem of industrial government—the proper allocation of society's resources between different uses and occupations: and when we enter the realm of speculation, we must not shut our eyes to attempts to deal with this larger issue as well as with the secondary matter of the actual conduct of individual branches of businesses.

For the present, however, it is on this secondary matter that we must concentrate our thoughts; and it is a sufficiently complicated one. Even if we confine our view to western countries and modern times, the forms of business organization which have been actually tried, to say nothing of those which have been suggested, are very numerous and diverse. And there is a further difficulty. As in politics so in industry, we may study carefully the external forms of an institution without being much the wiser about its inner nature—about the

processes by which decisions are really reached or the hands in which power really lies. An industrial label such as "joint-stock company," to take the most important example, may bear very different meanings in different instances. Moreover, those who have the most accurate knowledge of the way industry is really governed are often least able or willing to impart their knowledge in words. The result is that we have to deal, and deal to some extent in the dark, not only with great varieties of external organization, but with still greater varieties of industrial practice.

Into this labyrinth we may take one clue, which will serve us in good stead. Most readers will remember being restrained in their youth from the pursuit of desirable courses of action by the quotation of admonitory proverbs: and they may remember further that some of these proverbs had a habit of going about in contradictory pairs, so that action in any direction was made to seem dangerous if not impossible. It is one such pair of contradictory proverbs that furnishes the key to the complexities of modern industry. "Many hands make light work": "Too many cooks spoil the broth." How reconcile the implications of these two aphorisms, each in its way so sensible? The answer is that in modern industry they are not reconciled: and their mutual conflict is the source of the perpetual shifting of the sands of industrial structure. It will be convenient to introduce at once and to use frequently two technical terms, which are used in scientific writing with various shades of meaning, but which we may fairly pin down, for our purposes, to embodying the sense of these two proverbs. The first is the principle

of *differentiation*—the principle that if there is a complex job to be done, it will be done quicker and better if each of us concentrates upon a separate small part of it. The second is the principle of *integration*—the principle that things get out of hand if too many people are meddling about with them, and that sometimes, as most of us have on occasion irritably remarked, "If you want a thing properly done you must do it yourself." The greater part of this book will be devoted to analysing the structure of industry in the light of these two principles, and interpreting its developments in terms of their continual clash.

§ 3. *The Antecedents of Modern Capitalism.* But there is a preliminary task to be performed. This is one of the departments of economic study which it is most difficult to understand, and least desirable to approach, except through the path of history. Unless we have some idea of how, and in response to what circumstances, the present organization of industry came into being, we shall neither be able to see it clearly nor judge it fairly. It is not indeed necessary, though it would be instructive, to transport ourselves to past civilizations or remote climes, and seek there for parallels or contrasts to our own way of doing things. It will be sufficient for our present purpose to glance at the industrial structure of Western Europe, or indeed of England, in the Middle Ages, and to trace in the briefest outline the stages by which the phenomenon known as modern capitalism grew from those early beginnings.[1]

[1] For a masterly survey of this subject, the student should turn to Ashley's *Economic Organization of England.*

In the development then of European industry since the Middle Ages we may follow the economic historians in distinguishing four main stages: but it need hardly be said that in so meagre a summary they must be distinguished with a sharpness of outline which they do not exhibit in the actual course of history, where they shade gradually into one another, and overlap one another often by several centuries.

The first main stage or type of industrial organization is what is called the "family" or "household system." Under it each ordinary family or household provides, with a few inevitable exceptions, for all its own wants—raises its own food, makes its own clothes, provides its own household utensils and so forth. Even here, of course, there is *some* differentiation—the natural and obvious division of labour between man and woman, between adult and child: Adam delves and Eve spins. But apart from this we have a condition of almost complete industrial *integration*. Vestiges of this system of course remain to the present day. Certain industrial processes, such as the application of blacking to shoe-leather or the infusion of tea-leaves with hot water, are commonly performed for the consumer either by himself or by those to whom he is bound by ties of affection rather than of commerce, or at the remotest by a domestic servant; and in some parts of the country more complex processes, such as baking and brewing, are performed by each household for itself. But as regards the main field of industry the system is, of course, obsolete.

(ii) The next main type of organization is known by various names, of which the "handicraft system" is

perhaps the most expressive and comprehensive. It is marked by the general application of the principle of differentiation. A man specializes on some particular line of work—he becomes a wool-worker, or a metal-worker, or a stone-worker: he no longer supplies *only* his own needs or *all* his own needs, but lives largely by exchanging his products for those of other people. Survivals of this type of organization may be found in the artist or the village blacksmith, working as his own master and disposing of his own product.

Within this main stage of industrial development it is possible to distinguish historically four sub-stages, which are also of analytical interest. In the first, the simpler kinds of village craftsman have been differentiated—the smith, the mason, and so forth: but their market is still practically confined to their fellow-villagers or immediate neighbours. In the second, communications by road or river have improved, security is greater, and the market for each separate product therefore wider. The craftsmen have begun to congregate in the towns, and the broad differentiation between town and country, between manufacture and agriculture, has become apparent. And the towns themselves are to some extent specializing on different products and exchanging with one another and with other towns beyond the seas.

In the third sub-stage, differentiation has become more complex and the crafts more numerous. They have been split, as it were, by vertical lines: there are no longer simply metal-workers, but cutlers, armourers, spurriers, and so forth, each performing a distinct kind of metal-work. But they have also been split, as it were, by horizontal lines; there are not simply wool-workers,

but spinners, weavers, fullers and dyers, each working at a separate stage of the preparation of the wool for wear. The fourth sub-stage is one of those curious reversals or backwashes which mark from time to time the course of industrial evolution. Industry has to a large extent flowed back from the towns to the country—has become decentralized and diffused. The elaborate differentiation of crafts continues, but there has been some reintegration of each of them with the primæval craft of agriculture: the craftsman has become a farmer in his spare time.

§ 4. *The Birth of Modern Capitalism.* (iii) When this point has been reached, industry is ready for entry into the third of our main stages, the characteristic feature of which is best brought out by some such name as the "merchanting system." For when the individual producers are scattered all over the country, and no longer concentrated in certain spots where they can easily be found by and keep touch with their customers, the final stage of industry in the broad sense—the speeding of goods into the hands of the consumer—naturally falls, as foreign trade has long ago fallen, into the hands of a special class of merchants. We cannot enter here into the steps by which in different trades this merchanting class successively acquired control first of the disposal of the finished product, then of the provision of the raw material, and finally in some cases of the instruments of production with which the craftsman worked. But it is obvious that we are here face to face with a vitally important application of the principle of differentiation—the division of function between

those who initiate and control, and those who execute the actual labour of production. Not of course that this division here appears for the first time, even in the modern world. There had been serfdom and servanthood in the estates and houses of the great; and under the handicraft system the prosperous craftsman had long employed a few labourers in his house or workshop. But under the merchanting system this division of function between those who plan and those who toil assumes a new importance. The craftsman still works in his own house, under his own supervision, and sometimes with his own tools: but he works to the order of a merchant, and his status is, in some respects, but little removed from that of a wage-earner.

This type of organization continued even in England to prevail over a considerable part of the industrial field till well on into the nineteenth century, and over a more restricted but by no means negligible field it still prevails to-day. In the clothing trade of London and other great towns and in such trades as glove-making and lace-making in the country districts much "homework" of this kind is done by semi-independent producers, working to the order of some kind or other of absentee contractor. But as everybody knows, in the late eighteenth and early nineteenth century in England, and at a somewhat later date on the Continent and in the New World, the most important regions of industry began to fall under the sway of the fourth and last of our main stages of industrial organization—the so-called "factory system."

(iv) From the technical point of view the leading feature of the factory system is the substitution of the

complicated and expensive machine, driven by steam or some other mechanical power and merely fed and guided by the human hand, for the simple hand-driven tool. From the point of view of organization, its leading feature is the regimentation of large bodies of work-people under conditions of routine and discipline. The organizer of industry has become no longer merely a merchant giving out contracts, but an employer and manager of men, issuing orders: the semi-independent craftsman has become a wage-earner, a private in the industrial army.

In manufacture these changes involve the concentration of workpeople into centralized establishments or factories; but in other branches of industry in the broad sense, such as railway transport, the workpeople may remain widely scattered in space. Further the change in technique and the change in organization do not always go together: there were factories (though not many) before there were machines, nor is there much machinery employed, say, in Harrod's or the Bank of England; on the other hand, there have been machines, such as the spinning-jenny or the Sheffield grinder's lathe, capable of being worked successfully by isolated producers in their own homes. It is not always easy to say, therefore, where the factory system begins or ends: but from our point of view, the point of view of organization, its distinctive mark must be taken to be not the four walls of the factory, nor even the use of machinery and mechanical power, but the sharpness of the cleavage between the few who command and the many who obey.

It is no part of the purpose of this book to describe

the long and complicated series of technical inventions which marked and continues to mark the triumph of the new order of industry. But there is one point which is vital to what follows. There is not much reason to suppose that in England at the end of the eighteenth century mankind suddenly became tenfold cleverer and more ingenious than he had ever been before. It was rather that various weights and repressions, so to speak, were removed, and the age-long advantages of elaborate differentiation and scientific method allowed at length to tell to the full. Peace and security at home led to the accumulation of savings by persons able and willing to use them in experimenting with new forms of industrial technique and organization: conquest and discovery abroad led to a colossal widening of the potential market for the products of a highly differentiated industry. A revolution in road and canal transport preceded, in rail and sea transport followed, the revolution in manufacture. Population found in the demands of factory industry an outlet for its long-thwarted impulse towards expansion: and the growth of population gave rise to an aggregate of wants which could be satisfied by no other methods than those of factory industry. And the experience of England in these respects has been repeated with variations in other countries.

It would be wrong, therefore, to regard the "factory system," with all those attendant devices and complexities which we are about to study, as a fortuitous bye-product of the brains of a Cartwright or a Watt. It seems rather, given the necessary conditions, to have been the natural outcome of the collective genius of scheming, comfort-loving, philoprogenitive Man. It

may be capable of present modification in a hundred ways, and destined eventually to disappear: but we cannot suddenly scrap it while the rest of our condition—our numbers, our nature and our knowledge—is what it is.

CHAPTER II

LARGE-SCALE INDUSTRY

"I only meant that I didn't understand," said Alice. "Why one to come and one to go?"

"Don't I tell you?" said the King impatiently. "I must have *two*—to fetch and carry. One to fetch and one to carry."

Through the Looking-glass.

§ 1. *The Division of Labour.* We may now proceed to examine in detail the working of the two conflicting principles—differentiation and integration—in modern industry. And we may start with the tendency to differentiation or specialization of human beings and machinery within a single firm.

The broad advantages of what is called the division of labour have long been understood and often explained, but it will be convenient to summarize them here once for all. First, it gives scope for the most fruitful employment of special natural aptitudes. A light hand, whether for riding a horse or making a cake, an accurate eye for knocking in a nail, a quick ear for detecting the approach of submarines—such things are in some degree born and not made. How far any given industrial system really provides opportunities for the best utilization of particular natural talents, and how far the lack of mobility,

the tradition of following a father's calling or other such factors stand in the way is another matter: but the existence of specialized callings is a necessary *condition* for making the best use of human power.

(ii) Secondly, and more important, the division of labour promotes the development of natural aptitudes by those who possess them, and the acquisition of special skill by those who do not. There is no need to labour this point, which is capable of ceaseless application in daily life. A large part of the process of education and training, whether general, military or industrial consists simply in the transfer of as many actions as possible from the realm of conscious effort and brainwork to the realm of instinctive and unconscious performance. The most efficient man is often not the man who thinks most but the man who performs most with the least expenditure of thought. "Operations of thought," says a distinguished mathematician, in explaining the advantages of the language of mathematical symbols, "are like cavalry charges in battle: they are strictly limited in number, they require fresh horses, and must only be made at decisive moments." Anyone watching a workman performing a specialized modern industrial process may well recall Mr. Belloc's lines describing the way the water-beetle walks on the surface of the water, and concluding, "But should he ever stop to think of how he does it he would sink." It is obvious that this process of converting conscious effort into unconscious performance is made immensely easier if the field to which it has to be applied is limited by the division of labour. And it is obvious also that this result of the division of labour, while undoubtedly advantageous from

the narrowly economic point of view, presents dangers from the broader standpoint of what constitutes a reasonable human life.

Thirdly, division of labour enables a man to be continuously employed on a single job, and so to save the actual loss of time which is involved in passing from one job to another—both the delay physically necessary, and the further delay to which the average man almost necessarily succumbs in finishing up one task and buckling down to another.

Fourthly, division of labour facilitates the continuous employment not only of the man but of the tool. Even in a primitive state of the arts of production, a tool is an expensive thing, involving the locking-up of a certain amount of capital: and if A and B and C each keep in their homes a spinning-wheel and a cobbler's last and a plane, each of which is only used for a part of the day, there will obviously be a waste of capital as compared with an arrangement by which each of the three has one of the tools only, and works his whole time upon it. And this consideration obviously becomes of greater importance with every increase in the elaboration and expensiveness of the instruments used.

§ 2. *Standardization.* Such are the broad advantages of the division of labour. They have long been recognized: but they have been exploited far more fully than ever before in modern industry, whose tendency is ever towards a more and more elaborate subdivision of processes. The typical modern workman is specialized not merely to a single craft, but to a single tiny process in a single craft. The main impulse towards this

development is given by the fourth of the general advantages of the division of labour detailed above—the advantage of keeping a specialized and expensive instrument in full employment. With the invention of complicated and accurate machines, themselves made by machinery and capable of reproducing all but the most subtle and delicate movements of the human hand, the need for purely manual skill in industry has on the whole declined; how far it has been replaced by the need for a higher level of general intelligence is a matter of controversy. But in any case the main object of the division of labour is no longer so much to develop the dexterity of the human operator as to enable the continuous employment of the highly specialized machine. Industrial progress consists, therefore, at the present day, largely in the continuous advance towards a greater and greater measure of what is known as *standardization.* Industrial operations are made as uniform as possible and reduced as far as possible to routine: they are split up as completely as possible into their component parts, and each part is taken over by a separate machine.

This principle of standardization has been at work ever since the invention of machine-made machinery a hundred years ago: but it underwent very rapid development during the great war, when its rigorous application was responsible for the immense productivity of the British munition factories and the American shipyards. It receives a familiar embodiment in the Ford motor-car, and its continuous extension over the whole field of industry occupies the attention of many of the most energetic business leaders of to-day. In

particular it plays a part in that important body of industrial doctrine and practice which originated in America some twenty years ago, and which is known as Scientific Management. That movement indeed does not concern itself only with machine work: some of its earliest and most famous applications were in the field of purely manual work—the laying of bricks and the loading of bars of pig-iron. It is concerned with hammering in and consolidating the first three as well as the fourth of the general advantages of the division of labour. It aims at making a careful study of the movements actually required for performing any job with the least expenditure of effort, and at instructing and training the workmen to make these movements and no others: it seeks, that is, to realize to the full the saving of energy, time and thought which the division of labour renders possible. It seeks also, by a careful study of the capacities and aptitudes of individual workmen, to employ them on the jobs for which they are most suitable, giving the more skilled jobs to those who adapt themselves easily to its teachings, and relegating those who possess, in its originator's words, "the mental make-up of an ox" to appropriately bovine jobs. But by the same methods it claims also to reap to the full the fourth main advantage of the division of labour, by ensuring the most skilful and continuous operation possible of expensive machinery.

There are, indeed, formidable obstacles to the complete victory of the principle of standardization. Manufacturers are sometimes conservative and unenterprising. Consumers, whether individuals or business concerns, exhibit annoying vestiges of individuality, and insist

on having things made to their own specification, instead of evincing the enthusiasm which might have been expected for standard ships and locomotives, or standard boots and clothes. The craftsman who has given a lifetime to the mastering of a skilled job resents seeing it broken up into a number of semi-skilled operations, each capable of performance by a relatively unintelligent man working a highly intelligent machine. But on the whole standardization wins. Even when the nature of things or the caprice of purchasers does not allow uniformity in the final product of an industry, there are often component parts and preliminary processes which admit of complete standardization. So long as the main task of industry is the provision of increasing doses of solid comfort for teeming populations, so long there must be a powerful drive towards the spread of "mass-production"—the out-turn of masses of indistinguishable goods by methods involving elaborate specialization of labour and appliances. And to this necessity all devices, actual or suggested, for the government of industry must conform.

§ 3. *Standardization and the Size of the Business Unit.* We must now pass on to notice an important result of this specialization and standardization of the work of men and machines. This is that on the whole there is a tendency for production to be conducted on an ever larger and larger scale—for the large concern to oust and supplant the small. This result, like all the preceding developments of industry, is conditional on the growth of communications and the widening of markets. It will not pay a man to buy a set of shoemaking tools

and set up as a shoemaker unless he sees a prospect of doing the shoemaking for a fair number of his immediate neighbours. But still less will it pay a firm to instal an elaborate machine which is only adapted to performing one-hundredth part of the whole process of making a pair of boots unless it sees a reasonable prospect of disposing of a very large output. But conversely, once a firm has exhibited the enterprise and acquired the capital necessary to instal a large number of such machines, it will extend its market, even in the face of difficulties of transport and communication, at the expense of a smaller firm which has not been able to make the necessary expenditure: for it will be able to supply a greater variety of goods of a more finished quality at a lower price.

A large firm then can introduce more highly specialized machinery, and keep it occupied more continuously than a small: and the same is true, though probably less important, of highly specialized labour. The resultant tendency towards large-scale production is on the whole general throughout industry, but it operates with very different force in different trades. When the "machine" in question, to use the word in a very broad sense, is a very large and cumbrous and expensive affair which is absolutely essential to the work in question, such as the plant required in a sugar refinery or in a steel-rolling mills or the permanent way of a railway, the tendency is irresistible. But in other instances the specialization of processes and machinery may well be accompanied by a specialization of firms. If a small firm tries to compete with a large over the whole range of products turned out by the latter, it will

go under: it will not be able to employ continuously, nor therefore to instal, equally efficient machinery. But if it is content to specialize on one small process, say on the manufacture of a particular part of a watch or of a motor cycle, either trusting to the general operations of commerce and advertisement to secure a market or working by special arrangement with and for a larger firm, it may well be able to maintain itself successfully.

On the whole, however, specialization and standardization undoubtedly increase the advantages of the large firm over the small. We need not stop to examine the application of this principle in detail in trade and transport and agriculture as well as in manufacture: but it is just worth noting, by way of example, that in retail shop-keeping the specialized shop window plays something of the part played by the specialized machine in manufacture. Everyone can tell the difference in effectiveness between the elaborate series of tableaux of hothouse flowers, ladies' blouses and so forth which goes to make up the frontage of a big Department Store in London or New York, and the higgledy-piggledy profusion of cheese and candles in the single window of the village shop.

§ 4. *The Division of Brain-Labour and the Size of the Business Unit.* It would be a mistake, however, to suppose that the great size of the typical modern firm is to be explained only or chiefly by reference to its advantages in the specialization of machinery and manual labour. In most trades convenience sets a very definite limit to the growth of the individual producing plant; to be efficient a cotton mill or an engineering

works must be large, but it need not and should not be gigantic. But the size of the *firm* is not limited by the size of the *plant*; and the typical large manufacturing unit of to-day is a firm which owns, not a single gigantic factory, but a number of factories of considerable but not enormous size, possibly situated close together but quite possibly scattered over the face of a whole country or indeed of the whole world.

To understand how this occurs, we must pass on to a further application of the principle of differentiation. It is obvious that the broad advantages of the division of labour—the right employment of special talent and the acquisition of special skill and rapidity in dealing with a limited range of problems and situations—apply at least as forcibly to labour with the mind as to labour with the hands. From top to bottom of modern industry this principle of the specialization of brain work finds endless application. Among the supreme heads of a business—the partners of a private firm or the directors of a joint-stock company—one may devote himself mainly to the technical aspects of a business, another to its commercial and financial policy. Further down in the scale, the works manager of a modern concern, who is responsible for the actual conduct of production in the works, is an entirely different person, differently trained and with a different staff, from the head of the sales department and from the chief accountant. To pass further down again, the commercial traveller would find himself utterly at sea in the accountant's office, or the foreman of the foundry in the pattern shop. Indeed, even within his own narrow kingdom the foreman has, in a few modern businesses, been shorn of

much of his undifferentiated glory. The strands of his miscellaneous authority have been sorted out and placed in separate and more specialized hands. It is no longer for him to tell the workman what job to do next—that is done by the Planning and Routing Department, whose written instructions or living emissaries leave him little or no discretion in the matter. It is no longer for him to tell the workman how the job should be done—that again is laid down on an instruction card or communicated direct to the workman by a band of itinerant experts on particular aspects of the work to be performed. In some cases of Scientific Management, all that is left of the general all-round foreman is an expert in discipline —a specialist in the bullying or soothing of men.

It is evident that the elaborate division of brain work is a powerful force operating on the side of the large firm against the small, and tending to increase the average size of firms. This is very clearly seen in trades, such as those engaged in the working up of coal-tar products, where success depends upon the efforts of a host of narrowly specialized research workers, each working on a separate line of enquiry, but in strict co-ordination with one another. "An army of high-class chemists, such as won the success of the chemical works at Ludwigshafen, or those at Elberfeld, is as much beyond the reach of a man of moderate means as is the plant needed for making armour plates." [1] But the same principle can be seen at work over the whole field of industry. The small employer who has to supervise his own workmen, to do his own buying and selling, to keep his own accounts, to devise his own methods of

[1] Marshall, *Industry and Trade*, p. 241.

hypnotizing the consumer, is clearly at a grave disadvantage compared with the large firm which can put each of these activities in the hands of a specialized staff. To segregate problems of tèchnique from problems of finance, to deal in large figures with buyers and sellers and transport agencies and banks, to be free to shake one's wings and scan wide horizons and harbour deep designs—these are mighty weapons in the competitive struggle, even though the actual physical work of production is best carried on in establishments of moderate dimensions. It is the economies of large-scale government rather than of large-scale technique which dictate the size of the modern business unit.

Not that even here the advantages are all on the side of size. In a large business many matters have to be embalmed in routine which in a small one can be left to impromptu and intelligent decision. Loss of touch with detail is the price which all but the greatest must pay for freedom to concentrate upon broad issues. Even the supreme gift of leadership, the gift of choosing your subordinates rightly and of trusting them when chosen, is not a complete insurance against mishap: and those who cannot see the trees for the wood may sometimes stumble over an ugly root. In some branches of business there is no substitute for the ubiquitous eye of the small master, his first-hand acquaintance with detail, his direct touch with employee and customer. In agriculture in particular the tide of large-scale production advances but slowly. Some of the great staple tropical crops, like tea and tobacco, are, it is true, produced under conditions closely analogous to those of large-scale manufacture: but in most parts of the world

wheat farming is conducted on a relatively modest scale, and the cultivation of minor products—milk and fruit and vegetables and so forth—under conditions resembling those of the handicraft or the merchanting rather than those of the factory system. It is true that the technical economies of the division of labour are less pronounced than in manufacture: for a man who could only plough or only reap would not be much use on a farm. But on the whole there is much scope for the employment of specialized labour and still more of expensive and specialized machines, and it is difficulties not of technique but of control which inhibit the growth of farms. The geographical area over which control must be exercised is so wide, the fields which compose it so diverse in their temperament and their needs, the crops which it yields so touchy and exacting in their demands for personal attention. Thus as in manufacture it is the limit to the economies of large-scale government and not of large-scale technique which dictates the size of the producing unit: but unlike manufacture, agriculture runs its head into the former barrier first.

Thus the battle between the large firm and the small is not one which is ever fought to a definite finish, or waged with similar fortune on all parts of the industrial field. But on the whole in the modern world the race is to the swift, and the battle to the strong.

CHAPTER III

SOME DEVELOPMENTS OF LARGE-SCALE *INDUSTRY*

"I wish you wouldn't squeeze so," said the Dormouse. "I can hardly breathe."

"I can't help it," said Alice, very meekly: "I'm growing."

Alice's Adventures in Wonderland.

§ 1. *The Localization of Industry.* The preceding chapter has been devoted to a broad outline of the leading features of the "factory system." In this chapter attention will be drawn to a number of miscellaneous forces which are strongly at work in modern industry, and which bear in one way or another on the problem of its structure and government.

The first of these is the tendency towards differentiation or division of labour between different countries or districts—the propensity of particular trades to cling and breed and cluster in particular localities. The causes of this so-called "localization of industry" are very varied and often rather mysterious: but we may distinguish broadly between localization due to access to supplies of raw material, localization due to access to sources of power, and localization which, whatever its cause, is continued from force of habit

and from the miscellaneous but solid benefits which it confers.

(*a*) The first of these causes—access to raw material—has been on the whole in the last century and a half of decreasing importance. For the immense modern developments of transport and communication have had a double-edged effect on localization of this kind. On the one hand they promoted it, for the products of a localized industry could be transported great distances at a relatively low cost and compete successfully with the products of districts less favoured in natural resources. On the other hand they told against it, for if the finished product could be transported cheaply, so could the raw material, so that nearness to the latter no longer constituted an overwhelming advantage. Hence sprang up that remarkable state of affairs in which first England and then Western Europe in general became the workshop of the whole world. The cotton industry, for example, became localized at a distance of thousands of miles both from its chief sources of supply and from its chief markets. This kind of arrangement has seemed to several generations of Europeans so natural that many people are only just beginning to realise that it is really a very singular and perhaps a very unstable one. If transport is for any reason upset, or if the competition of better-situated centres gives a new prominence to its costs, propinquity to raw material again becomes a highly desirable asset to the manufacturer. It is becoming a distinct source of anxiety to the British iron and steel industry that it should depend so largely on Swedish and Spanish ores; and it is doubtful whether a disinterested visitor from another planet would

approve, as the Englishman cannot but approve, of the queer dispensation by which American cotton is spun and woven for Indians in Lancashire.

(*b*) Access to power has been since the Industrial Revolution the most important cause of the localization of industry. Coal, the chief source of power, is heavier and bulkier than most kinds both of raw material and of finished product: and it has become cheaper in most cases to take the raw material to the coal than to take the coal to the raw material. The general result has been not so much a localization of particular industries in particular spots as a localization of industry in general in the neighbourhood of the great coalfields. It is no accident that the great manufacturing countries of the nineteenth century—Britain, the United States and Germany—have been the great coal-raising countries, or that similar localization has taken place in each country.

There is no need to develop this familiar fact: it is of more interest to consider the possible effects on localization of the new sources of power which have become available within the last twenty years. Oil is, or is likely to become, easier and cheaper to conduct in pipe-lines and tank steamers than coal in trucks and cargo boats. Electricity can be generated in bulk in central stations, by water as well as by coal power, and distributed over large areas. Two important results are likely to follow at no immensely distant date. First, internationally, there is likely to be some transference of the centres of manufacture to countries such as North Italy, Scandinavia and New Zealand, which have access to abundant supplies of falling water. Secondly,

within each country, there is likely to be some decentralization and ruralization of industry comparable to that which took place in England in the latter days of the "handicraft system" (p. 10): for cheap power will become available to the owner of an isolated factory and even (as in the Sheffield cutlery trades to-day) to the worker in his own home.

(c) Localization which occurs originally for obscure reasons of climate or history often perpetuates itself by reason of other advantages which it brings in its train. Once a trade has become firmly established in some particular spot, generations of skilled workmen are brought up to practise it from an early age: firms which work up its by-products or make the machinery which it needs spring up in the neighbourhood: its problems become the common topic of conversation and saturate the atmosphere. Hence anyone who desires to enter that trade will do better to set up in that district than in some other which is less responsive to his needs and where the breeze of interesting information will blow more faintly. Localization of this kind shows an astonishing persistence in survival: yet once again there are powerful forces at work tending to undermine it. The obstacles to the transportation not only of machinery but of skilful workers are not insuperable: and knowledge can be communicated by telegram and trade journal as well as by word of mouth. The traditional leadership of many of the favoured manufacturing districts of the world would seem therefore to be somewhat precarious. As England in the last half-century has had to share her monopoly of manufacturing skill and tradition with Germany and America, so it seems

inevitable that as education and technical knowledge spread east and west, those advantages will have to be still more widely shared. It is even possible that the part ultimately reserved for the British Isles in the scheme of the international division of labour will be that of a playground and park and museum to exercise the youth and soothe the declining years of the strenuous industrial leaders congregated on either side of the Pacific Ocean.

We are now ready to enquire what is the effect of localization on the internal structure of industry. On the whole its influence would seem to be on the side of an increase in the size of the individual firm. Obviously if flour-milling is concentrated in a few big ports, the inducements to produce on a large scale will have more chance to operate than if there has to be a flour mill in each village. If Lancashire spins cotton for the entire world, there will be a chance of the emergence of a much larger cotton-spinning unit than if each country spins cotton for itself. In other words, width of market is the essential condition alike for localization and for the development of the large firm, and in giving rise to the one it may well give rise to the other. Further, firms which are already localized are more likely to coalesce by fusion into a larger industrial unit.

But this is not the whole truth. In fact, the typical Lancashire cotton-spinning firm was till recently quite small, and is not even now of enormous size. While localization permits the rise of large businesses it also permits the survival of small ones: for its advantages—propinquity to coal mines and subsidiary industries, the existence of a reservoir of skilled labour, an open ear for

the shop of the club and of the market-place—can be enjoyed as easily by the small producer as by the large. A small firm which in isolation would go under may survive and prosper as one of a cluster.

The answer therefore is not entirely simple: but on the whole we may say that the local concentration of industry has been bound up with the concentration of its government into a few powerful hands. And if, as has been suggested above, the ensuing century brings a somewhat greater diffusion of industry over the face of each country and of the globe, that diffusion may bring with it a rather wider distribution of the reins of industrial authority.

§ 2. *Vertical and Lateral Integration in Manufacture.* The next tendency which calls for special notice brings us at last into touch with the principle of integration—the gathering up into a single hand of functions which have hitherto been separated and specialized. A modern article by the time it appears on the market has a long and eventful history: like a butterfly it has passed through a number of stages of development. How far are these successive stages of production performed by independent firms, and how far are they concentrated under a single control? When they are concentrated under a single control, we may say that integration takes place: but we must remember that this does not imply any reversal of the tendency to differentiation among machines, manual workers and the subordinate grades of brain workers, which may indeed become more elaborate and complete. It is only in the hands of those who are in supreme control of the processes of industry

that there is any tendency for functions hitherto divided to be reunited.

Manufacturing industries differ a good deal from one another in this respect. The tanner who turns hides into leather and the bootmaker who turns leather into boots are (in England) distinct persons and show no tendency to coalesce. The woollen trade was differentiated very early into the successive stages of spinning, weaving, fulling and so forth (p. 10): later the separate processes, while performed by different producers, all fell under the general control of the clothier or merchant. At the present day, in the "woollen" or short staple wool trade the various processes are more usually performed under the same roof and control, while in the worsted or long staple wool trade they are more usually separated. In the cotton trade the separation of spinning and weaving firms, while not universal, is the general rule: for the various kinds of cotton yarn are much more uniform and easily standardized products than those of "woollen" yarn, and the cotton-weaver is more certain of being able to satisfy his exact requirements in the open market, and has therefore less inducement to spin for himself.

In the iron and steel trades special forces are at work to strengthen the tendency towards the integration of successive processes. First, the various stages form a market for one another to an extent which finds no parallel in any other group of trades. While the weaving firm needs yarn, the spinning firm does not need cloth: whereas not only do the rolling mills and the machine shops need iron and coal, but the iron and coal mines need rails and machinery. Secondly, a great waste of heat can be avoided if the masses of metal can be carried on quickly

from one process to another, instead of being allowed to cool during preservation in store or transportation by rail. Thirdly, these industries are peculiarly subject to large alternations of activity and slackness of demand, and it is therefore peculiarly advantageous for any firm to have secure access to supplies of raw material when times are good, and a secured outlet for at least part of its products when times are bad. Here is a quotation from the speech of a chairman of a large mixed iron and steel company,[1] which will exhibit better than many pages of elaborate analysis the motive and method of what we may call "vertical integration" in these industries. "We are producers of coals; we have got modern collieries, thoroughly equipped to take a full share in the prosperity which will come about when the horrid coal control finishes. . . . Passing from coal, my friend, Mr. Whitwell, is in charge of the next stage in the ladder, namely, pig-iron—bar-iron—leading on to steel works which we hope to acquire, and for which we are at present in very close negotiation. Then we pass on to our shipbuilding yard, where the steel will be readily absorbed, and I can say this truthfully, that at the present moment we are suffering in our output chiefly on account of the lack of raw material. It is very essential therefore that we should secure our own steel works with the least possible delay. . . . Turning from the shipbuilding yard we pass on to ship-owning, and in carrying on and supporting our ship-owning we are building up a very large coal-exporting business and a timber-importing business. Mr. Whitwell, at his iron works, requires our ships to bring back the iron-ore to

[1] Reported in *Economist*, Oct. 25, 1919, p. 781.

keep his blast-furnaces going. We pass on to marine insurance, and in this connection we are closely associated with Lloyd's. There is not a string that we are neglecting in this great aspiration of ours that we should be self-contained, and be able to carry on the business in such a way that in cycles of depression and prosperity it will give a constant regular dividend to the shareholders and secure their principal."

Large manufacturing firms often integrate the subsidiary processes which have to be performed, such as the making of barrels or packing-cases, as well as the working-up of their own waste products, whether for their own consumption or for the market. A Norfolk oil company, for instance, reports [1] that it is about to use its waste gas to convert its waste shale into cement, and to work up the clay in its oilfields into bricks, both for its own use and for sale in the neighbourhood. The possibility of undertaking such subsidiary work gives an added advantage to the large firm in competition with the small: though developments of this kind may be long delayed by the localization of industry. For if a number of firms performing the main process are highly localized, a firm specializing on the subsidiary process will probably sooner or later establish itself in their neighbourhood, since the combined requirements of all of them will suffice to maintain it in full employment: in this case both the main firms and the subsidiary firms may remain on a small scale, and yet be able to compete with a large firm performing its own subsidiary work. In the Chicago meat-packing trade, for instance, the utilization of horn and other waste

[1] *Economist*, Sept. 6, 1919, p. 407.

products was for a long time in the hands of separate firms: but it was finally taken over by the big packers for themselves; and on the whole the drift towards the swallowing up of subsidiary processes seems to be considerably stronger than that towards their specialization in the hands of independent producers.

It is a short step from the conduct of such subsidiary operations to a more thoroughgoing type of integration. It will be remembered that the early crafts split up in two different ways, the wool trade (for instance) into successive *stages*, the metal trade into the manufacture of separate *products*. And in certain branches of modern industry there is a strong tendency to gather up under a single control not merely the successive stages of the manufacture of a single product, but the manufacture of a vast variety of apparently quite dissimilar things. For this "lateral integration," as it may be conveniently called to distinguish it from the "vertical integration" discussed above, there are two chief reasons, one connected with technique and the other with marketing.

The ways of chemical change are so subtle and surprising that a single basic substance like coal-tar may give birth under different treatment to an extraordinary variety of useful objects; so that it may be convenient for one firm to produce simultaneously scents and medicines and dye-stuffs and explosives. Again in the engineering trades standardization has proceeded so far that many of the processes required for producing, let us say, mowing machines and bicycles and marine engines are identical. And to these technical reasons for variety of output a strong reinforcement is added by the desire for insurance against the failure of demand in

any particular market. To be able to switch rapidly from swords to ploughshares and back again is a happy fate. Indeed, in some cases this mutual insurance of markets is the dominant motive for lateral integration. Thus the straw hat makers of Luton took to the manufacture of felt hats not owing to any great technical similarity in the two processes, but to render themselves independent of the fluctuations of a seasonal demand.

§ 3. *Integration of Manufacture with Agriculture and Transport.* It will be remembered that in the iron and steel trades vertical integration extends right back when possible to the extraction of their primary raw products—coal and iron ore—from the earth. In industries whose raw material is an animal or vegetable product, this tendency to the integration of manufacture with extraction encounters greater difficulties, owing to the wider diffusion over the world of the sources of supply: but one of the dominant motives of integration—the desire to be independent of others in respect of raw material—is by no means absent. The same happy state of affairs which in the nineteenth century favoured the international division of labour between Europe and the rest of the world favoured also the complete differentiation of the European manufacturer and the extra-European grower. And the same forces which at the present day threaten to undermine an international division of labour founded not upon natural advantages but upon acquired skill, impel the manufacturer towards efforts to acquire the exclusive control of his sources of material. At present these efforts have not proceeded very far: a Leverhulme develops his own sources of

supply of animal and vegetable oils; associations of cotton manufacturers explore and encourage, if they do not actually acquire, new sources of raw cotton; the Chicago meat-packers extend their tentacles into the ranches of Argentina and New Zealand: but in the main the manufacturer and the grower are still distinct. Nevertheless, this tendency towards the integration not merely of the successive stages of manufacture, but of manufacture in general, with agriculture in general is one which cannot be ignored.

There is integration too between the different methods of transport, and between transport and manufacture. If passengers have to perform the bulk of their journey by rail and the rest by sea or river—if goods which are hauled long distances by rail or canal require final delivery by road, there may be a great gain in economy and convenience if these agencies are gathered up under a single control. Hence we find railway companies owning their own horse and motor transport, steamships and hotels. Further, they own their own engineering shops, and in England at least manufacture their own locomotives to an extent which, in the opinion of the engineering trades, is against the general interest, because it militates against the adoption of a uniform pattern of locomotive and the consequent economies of standardization. But it is not always transport which swallows up manufacturing processes—sometimes manufacture swallows up the processes of transport. This occurs when the instruments of transport required by an industry are highly specialized, such as oil pipe-lines and tank steamers: or when a whole region is permeated by a single powerful business, as the area between

Pittsburg and the Great Lakes is by the United States Steel Corporation.

How far there is differentiation, and how far integration, between the function of *storing* and *selling* goods and the function of making them is a subject so complicated and important as to require a chapter to itself (Chap. IV). But we have seen enough to conclude that the modern drift towards integration aggravates the tendency, inherent in the "factory system," for the government of industry to become concentrated in a relatively few powerful hands.

§ 4. *Combination.* The next development of modern industry which calls for notice is the tendency of firms to combine with one another and carry on their business in common; but there is not much which need be said of it at this point in our story. So far as the motive and result of combination is the achievement of the economies of large-scale organization, there is nothing to add to what has been said in Chapter II, § 4; for it makes little difference whether a big firm is the result of slow growth or of coalition. So far as combination takes the form of joint control of markets, it will be discussed in Chapter IV, § 4; so far as it proceeds by manipulation of the mechanism of the joint-stock company, in Chapter VI, § 3; so far as it invokes the attention of the State, in Chapter IX, § 1.

All that needs to be said here is that combination, if carried far enough, not only increases the concentration of industrial power, but adds to its total volume. A combine or other giant firm which controls a preponderant part—say, 80 per cent—of the output in any trade

is in a position to dictate pretty effectively the policy of the whole trade with regard to prices and production. Of course, like the small producer, it is ultimately at the consumer's mercy—it can choose the price which it will charge, or it can choose the quantity which it will sell, but it cannot choose both: but unlike the small producer it knows that its actions will have a decisive effect upon the market. Sometimes this power is used to oppress the consumer, by keeping him less well supplied than he would be if full competition prevailed. In other respects its use may be beneficial, for the combine can, if it chooses, keep output, or prices, steadier than they would otherwise be; and can pursue a more level-headed policy about extensions of capital equipment and so forth than a number of competing producers all of whom are in the dark about each other's actions and intentions. In any case, an industry in which combination has been carried to great lengths (such as the iron and steel industry in the United States) is "governed" in a sense in which an ordinary industry is not.

CHAPTER IV

THE ORGANIZATION OF MARKETING

"'First the fish must be caught.'
That is easy: a baby, I think, could have caught it.
'Next, the fish must be bought.'
That is easy: a penny, I think, would have bought it."
Through the Looking-glass.

§ 1. *The Functions of the Trader.* In this chapter we have to consider how the labour and risk involved in the organization of industry is distributed between the grower and the manufacturer on the one hand, and the various kinds of merchant and dealer on the other.

It would of course be ridiculous to regard the differentiation of the dealer in goods from the maker of goods as in any sense a peculiarity of modern industry. In particular the business of foreign trade, with its special problems of distance, language, currency and so forth, came to be specialized very early into separate hands: and we have already noted (p. 10) the dominant position of the merchant in the phase of industry which preceded the factory system. But in the days of the early "factory kings" the distinction for a time becomes blurred. In the woollen trade the merchant simply adds the new task of factory direction and control to his old tasks of dealing and organization. Richard Arkwright,

having acquired his great but somewhat questionable commercial skill as a travelling buyer of ladies' hair for re-sale to wig-makers, remains a merchant as well as the leading cotton manufacturer of his day. James Watt spends much time, which might perhaps have been more fruitfully employed, in touring the country to obtain contracts and exact payments.

In succeeding generations, however, factory industry tended more and more to specialize off its commercial functions into separate hands. To combine the risks and duties of the manufacturer with those of the dealer was found as a rule too big a job. Producing goods in large masses, not to special order but in anticipation of the movements of distant and fluctuating markets, the captain of factory industry came to need the services of specialized middlemen no less than his predecessor the village craftsman had done.

The economic function of the middleman is to bear a share, by the provision of capital, the exercise of brain-work and the assumption of risk, in the cost of bringing goods to market. He is the bridge, on the one hand between the grower and the manufacturer, on the other between the manufacturer and the consumer. The average fairly large-scale manufacturer of machine products desires to devote his whole attention to the business of manufacture, and to sink all the capital he can spare in the proper equipment and conduct of that business. He does not want the worry of finding touch either with the producer of his raw material or with the consumer of his product: he does not want the expense either of storing raw material until he needs it, or of carrying and exhibiting stocks of manufactured goods

till somebody chooses to come along and buy them : and apart from the expense, he does not want the risk of carrying stocks, either of material or of finished goods, which may depreciate on his hands owing to some failure in demand or some change in the conditions of supply. The merchant on either side of him relieves him of part, at any rate, of this trouble, expense and risk.

The *work* of the middleman consists partly in arranging for the storage of goods till they are wanted, whether it be grain in elevators or cotton-cloth in warehouses or tinned salmon in the village shop, and for their transfer, as and when they are required, into the hands of those who require them. But it involves also something more than that. He is not a mere unloader of what has already been produced, but to some extent an arbiter of what shall be produced in future. It is his business to forecast, to stimulate and to interpret the desires of consumers. In some cases he may make suggestions or even give instructions to the manufacturer regarding the type of goods to be produced : he may even, like his predecessor of two centuries ago, employ the manufacturer on a commission basis.[1] But in any case it is the magnitude of his orders for any particular product which inspires the decision of the manufacturer to expand or contract its output. It is the merchant rather than the maker who is the hub of the modern economic system with its dependence on the mechanism of price.

[1] The "combing" or preparation of wool for spinning into worsted yarn is usually done on this plan for the merchant or "top-maker," who buys the wool raw, and sells it ready for spinning. In the same way the cloth merchant sometimes "gives out" cloth to a dyeing firm to be finished and dyed.

It is upon him that falls the first impact of an expansion or a shrinkage of demand, and it is he who takes the decisions and places the orders which guide the productive forces of society, though with much creaking and groaning, into those channels where they will best satisfy the requirements of those who have money to spend.

The *risks* and *expenses* of the middleman are evident from the nature of his work. He must lock up his resources in the form of stocks of goods, and he must take the chance that he has misjudged either the general conditions of trade or the demand for the particular products in which he has invested. Thus he lifts a heavy burden from the farmer or the manufacturer. At the same time it must be noted that the devolution of expense and risk from maker to merchant is by no means complete. In the first place there is hardly any manufacturer who is not obliged to keep *some* stocks of his product, whether in a raw or finished state, which he has not contracted to sell at a fixed price, and a decline in whose value may therefore cause him heavy loss: nor is he always disinclined to "have a flutter" and attempt to supplement his manufacturing profits by gains arising out of the holding of stocks. Secondly, in some trades it is the practice for the manufacturer to supply merchants with goods on credit, so that while the labour of marketing is taken out of his hands, the expense and part of the risk really remain upon his shoulders. Thirdly, while the merchant acts as a buffer to soften and delay the impact of fluctuations in demand, he cannot always prevent their ultimately reaching the manufacturer. If he is strong financially and confident

in mind, he may continue to give steady orders to manufacturers undeterred by temporary ups-and-downs in the requirements of ultimate consumers. But experience indicates that this is by no means always the case. The merchant, like other human beings, is apt to lose his head both when things go well and when things go ill. Encouraged by a rising demand, he will flood the manufacturer with orders, and induce him to expand his productive capacity: then at the first sign of relapse he will grow alarmed at the size of his own accumulated stocks, and decline utterly to place any fresh orders. The manufacturer who has surrendered his eyes to the merchant is rather in the position of the passenger in an aeroplane—relieved of the sense of responsibility for immediate decisions, but not of the ultimate risk of being deposited on the ground.

§ 2. *Specialization among Traders.—Produce Exchanges.* We have alluded so far to the middleman in somewhat general terms: but there is of course a specialization among middlemen, the nature and elaboration of which differs considerably in different trades. Broadly speaking we may distinguish three main types. There is the dealer in raw materials—wheat or rubber or tin or steel products or builder's materials—who sells to a producing firm: there is the wholesaler of finished goods, who sells to a retailer: and there is the retailer, who sells direct to the general public. But in some instances specialization is carried a good deal further. Thus the wholesale draper or provision merchant, who keeps a great variety of wares, may buy not direct from the maker but from a number of large merchants each of whom

specializes in a particular narrow line of clothing or food product, and gives his orders direct to the manufacturer.

Further, in some lines of business there has developed a class of trader who performs some, but not all, of the functions of the merchant proper. The broker of fruit or other raw produce, by the exercise of his skill and judgment, assists the grower to bring his wares to the notice of the merchant, and the merchant to obtain his exact requirements from the grower: but he does not himself become the owner of the goods that pass through his hands, nor undertake their storage in space and their carriage through time. And in some of the staple products of modern commerce, great organized markets have grown up in which experts can shoulder a large part of the risks of dealing without incurring any of the trouble and expense involved in the handling of the goods at all. On the great exchanges of Chicago and New Orleans and Liverpool many people deal in cotton or wheat who would have neither the knowledge nor the capital to undertake its actual storage and distribution, at any rate on the scale on which they deal in it. The essential conditions for this apparently odd arrangement are that the product should be widely and regularly dealt in, and that the various kinds and qualities should be capable of such accurate grading and standardization that they can be bought and sold by *description*.

It thus becomes possible to promise to buy (let us say) cotton in six months' time at a price which is fixed now, in the expectation of being able, when the time comes, to re-sell it immediately at a higher price; or to promise to sell cotton in six months' time at a price which is fixed

now, in the expectation of being able to buy at a lower price enough cotton to fulfil the contract. If you think that cotton is going to become scarcer, you pursue the former course; if you think it is going to become more abundant, you pursue the latter. In neither case need you handle the actual cotton at all, and in neither case do you need to employ or to risk more capital than the relatively small amount required to give proof of your ability to stand any reasonably likely movement of the price against you. And in both cases, supposing that you are right in your judgment, you will have rendered certain incidental services to society. By "buyimg futures" rightly, you help to make the price of cotton rise earlier and more steadily than it would otherwise have done; and you thereby issue a warning to consumers to economise in their consumption and an invitation to producers to expand their production, and so help to avert the very shortage from which you expect your profit. By "selling futures" rightly, you help to lower the price of cotton and thus to thrust it forward into consumption and discourage its production, and thereby prevent the glut which you foresaw. Thus expert speculation on the produce exchanges helps to make the world safer for the grower, the mill owner and the man in the street.

But it also removes risk from the mill owner in a more direct way, which requires a little mental concentration to understand. If he has sold his output for some months ahead to a merchant at present prices, he will desire to insure himself against a rise in the price of the raw cotton which he will shortly need to buy. If, on the other hand, he is making for the open market and taking

his own risks of sale, he will desire to insure himself against a *fall* in the price of raw cotton: for if such a fall occurs, the price of the finished product will fall in sympathy, and he will find that he has been converting dearly bought cotton into yarn or cloth which he must sell cheap. The fears of these two groups of mill owners can be made to cancel one another if the former buys and the latter sells "futures" on the organized market. For the former will then be certain of obtaining his material in (say) three months' time at a price which is fixed now, and which is therefore in harmony with the price at which he has contracted to deliver his output to the merchant. And the latter, if his fears are realized and the price falls, will be able to fulfil his contract of sale with cotton cheaply bought, and will therefore gain on this paper transaction about as much as he loses on the actual cotton which has passed through his mill. Thus the professional dealers on the produce exchange not merely *bear* risks which the manufacturer is unable or unwilling to bear: they are actually enabled in some degree to *destroy* risks altogether, by setting them off against one another. And the manufacturer, by conducting what is in appearance a gambling transaction, is enabled to effect the very opposite of a gamble, namely, an insurance.

§ 3. *Individual Integration of Marketing Processes:* Speculation on the produce exchanges raises in an acute form the doubts which in the minds of most ordinary people gather around the whole apparatus of trade and commerce. There is no question that its general effect is beneficial—that it contributes towards the easy

satisfaction of wants and the right employment of resources. But to most people it seems unnecessarily elaborate and expensive, and to afford opportunities for the depredations of the mere parasite, who makes gains out of all proportion to the services which he renders to society. There has existed throughout history a suppressed irritation against the mere trader as a barren person, which breaks out at times of excitement into orgies of anti-Semitism, statutes against "forestallers and regraters" or profiteer hunts: and it is difficult to resist the impression that there is a substratum of reasonableness in this widespread emotion. In 1921, one-twelfth of the occupied persons in England and Wales were engaged in one form or other of dealing: and the proportion of the price of finished goods, amounting on the average to something like one-third, which represent the services of dealers is often very startling. It would seem, indeed, that here is a matter in which an economic autocrat might clearly improve on the distribution of the nation's resources effected by natural forces, by pushing off into the work of actual production a goodly proportion of those who make a living by the operations of purchase and re-sale.

In any case, it is not surprising that in modern industry, side by side with the tendency to elaborate differentiation of the trader, we find at work the conflicting tendency to eliminate him altogether, and to integrate his functions with those of other people. The most striking instance of this tendency, the consumers' co-operative movement, presents features so peculiar that it will best be considered later in connection with other schemes for the radical transformation of society.

At present we must confine ourselves mainly to those traces of the integration of dealing which are to be found within the structure of what is ordinarily called capitalist industry.

There are some trades, such as shipbuilding and high-class tailoring, where it has always been the usual practice to make to the special order of a customer, without the intervention of any merchant. There are others, such as speculative house-building, where the business man who organizes the work of production may himself undertake the risk of disposing of his product to the final consumer. Sometimes one manufacturer sells direct to another, as the Yorkshire woollen manufacturers do to the wholesale tailoring trades. But even in businesses making ordinary machine goods for the general consumer, there is some tendency for large firms to undertake their own processes of marketing. They may (like the Imperial Tobacco Company) dispense with the various grades of wholesale merchant, and deal direct with the retailer: or they may even (like Freeman, Hardy and Willis, boot manufacturers) set up their own retail shops.

There is integration too between the various grades of trader. The wholesaler swallows the retailer, and we get the great "multiple shop" company, like Boots' or the Maypole Dairy, with their numerous branches run by local managers, scattered all over the country, and fed from central wholesale depots. Sometimes the trader integrates the processes of production, and not the producer the processes of trade: the multiple shop owns its own factories, or its own tea plantations, like Lipton's.

§ 4. *Concerted Integration of Marketing Processes.—The Cartel.* The integration of marketing processes can be performed by a single firm if it is large enough and enterprising enough: but it is more commonly due to the combined action of several firms, and the desire to achieve it is the most powerful motive towards the formation of at least some of the types of industrial combination. Fifty years ago, when there were markets for all and it was only a matter of organizing and exploiting them, the numerous relatively small manufacturers in each trade were glad enough to leave that specialized work in separate hands. But as the advantages of standardization lead to the growth of larger and larger firms, each of them egged on to increase its size by the expectation of supplying a large part of the total demand, fierce competition for markets arises between them. Each of them is no longer satisfied that the ordinary processes of commerce, specialized in the hands of wholesalers and retailers, will allot to it what it is pleased to regard as its fair share of the trade; for each of them is organized to supply a larger proportion of the market than is likely to fall to it automatically. Hence arises an enormously wasteful expenditure on the competitive pushing of goods by means of newspaper advertisement, travelling salesmen and so forth: hence also a growing recognition both of the actual economies in advertisement, etc., which could be effected by a combined control of markets, and of the opportunities which it would give for regulating and restricting production; and sooner or later an agreement or association of some kind is formed.

Such arrangements for the control of marketing

processes exhibit great variety; but it will be convenient to distinguish broadly between three main types, of which the third alone involves any actual displacement of the specialized merchant. (i) In the first, each individual producer is left perfectly free to dispose of his own output. Arrangements of this type are of several kinds: they may merely involve an agreement about the conditions on which goods may be sold: or they may involve what is called an "honourable understanding" about the prices to be charged—a form of agreement which is commoner in all ages and countries than is always realized. Or they may take the much more highly developed form found, for instance, in the English metal bedstead and light castings trades. Here each firm is allotted a certain quota of the total output, but it is not settled what the total output is to be. Each firm disposes of its output separately, but if it is found to have exceeded its quota for the month it has to pay a fine, and if it is found to have fallen short of it it is allowed to claim compensation.

(ii) In the second main type of association, there is definite interference with the individual firm's liberty of disposing of its output. This may occur in two chief ways, according to the character of the industry in question. The first is the pooling of contracts, a procedure which is perhaps commoner than is often suspected in the building trade: the separate firm is not allowed to tender for or accept a contract without reference to the association, which sometimes settles the figure at which the tender is to be made, or even in effect decides to which firm the contract shall go. The second and commoner method is the distribution of markets, each

firm being allowed a free hand in one geographical area and denied access to the others. Such agreements have been conspicuous in international trade—for instance, the International Railmakers' Association, in which the British, French, German, American and Belgian makers were each guaranteed their home market, and the export trade divided between them in agreed proportions.

(iii) Agreements of this kind easily lead on to the third and most highly developed form of association, in which a separate concern is organized to take over absolutely and dispose of the output of the associated firms. Such an association may be confined to the export trade, as in the case of the British-American Tobacco Company founded in 1902 by the American and British Tobacco Combines to exploit jointly the trade of the world, each of the combines being left in possession of its own home market. At the present day there is a strong tendency in the United States to develop export trade by means of such collective enterprises. Thus the United States Steel Products Company markets abroad the products not only of the great Steel Corporation but of its competitors as well; and a recent law exempts from the scope of previous anti-trust legislation associations formed solely for the purpose of foreign trade. The same special intricacies of foreign trade which led the manufacturer in happier times to shuffle it off on to the merchant lead him, as international competition becomes more acute, to attempt to tackle them by combined action.

But the central selling agency is not confined to foreign trade. It has appeared for more general purposes

in England in the salt and sewing-cotton businesses; but it has been most prominent in Germany, where it is the essential part of the final and most elaborate form of the type of organization known as the Cartel, of which the simpler forms confine themselves to the practice of one or other of the devices already discussed. The great Westphalian Coal Syndicate disposes of the whole output of its members, except that part which those integrated firms which are members use in their own iron and steel works. The powerful Steelworks Union, until its dissolution after the Peace of Versailles, undertook the whole marketing of the simpler products of its members; though its post-war successors, the Raw Steel Association and the rest, have had to be content with regulating output, fixing quota of production for its members, and allotting them orders.

§ 5. *The Integration of Marketing and the Size of the Business Unit.* The syndicate of this kind is in theory a somewhat democratic form of organization, involving a wide diffusion of the powers of industrial government. For whereas with unfettered competition or complete amalgamation the small firm disappears altogether, in the syndicate each firm, however small and weak, receives its "participation," or allotted quota of the output, and maintains its own separate existence. In practice, however, things do not always work out this way, for the stronger firms are apt sooner or later to buy up the participations of the weaker. Further, the syndicate form encourages the practice of vertical integration: for by this device the more powerful firms can avoid handing over their output to the syndicate for

sale. For both these reasons there has been a tendency even in Germany for strong amalgamations, typified by the great United Steelworks Company (1926), to grow up within the walls of the Cartel and to dominate its policy. And in two of the strongest groups of German industries, the electrical and chemical groups, the Cartel form has never played a prominent part: but the powerful firms controlling them have exercised joint control over marketing, especially abroad. On the whole there can be no doubt that the integration of marketing increases the concentration of industrial power in the hands of a few persons.

In some of the minor German industries, however, the Cartel movement seems to have solved with success the problem of combining relatively small-scale production with security of markets. And the same may be said of another and a world-wide development which, while it goes by a different name and is animated to some extent by different motives, bears a strong resemblance to the Cartel movement—namely, the practice of agricultural co-operation. It has been pointed out (p. 26) that considerations of control require as a rule that agriculture should be conducted on a small scale, while at the same time such small-scale production prevents the exploitation of economics which are technically possible. This difficulty can be surmounted if the several producers, while retaining their independence in their main field of work, unite in order to integrate certain subsidiary processes. Some of the economies thus obtainable are connected with the use of materials and instruments, and are obtained by the co-operative purchase of (for instance) seeds and manure, and the

co-operative hiring of agricultural machinery. Others are connected with manufacture, and are obtained by the co-operative ownership of creameries or bacon factories. But the most important are connected with the disposal of the product, and are obtained by the co-operative establishment of a storage depot and selling agency, whether for wheat as in Western Canada, or for eggs as in Denmark, or for potatoes as in Belgium. Sometimes such concerted integration is undertaken as a counter-move to the integration practised by more powerful bodies: thus we find the German farmers undertaking the co-operative purchase of manure to escape from the domination of the Phosphate Cartel, and the New Zealand farmers setting up a central agency for the export of meat to escape from the domination of the Chicago packers. But in any case arrangements of this kind tend to keep the exercise of economic power and initiative more widely distributed than it would otherwise be.

CHAPTER V

THE CAPITALIZATION OF INDUSTRY

"Curiouser and curiouser!" cried Alice; "now I'm opening out like the largest telescope that ever was!"

Alice's Adventures in Wonderland.

§ 1. *The Organization of Credit.* The next matter which requires our attention is the severance which sometimes occurs between the *ownership* of the resources employed in industry, and their actual *management* and manipulation, and the rival tendency which in this as in other quarters is making itself felt towards the reunion of functions which have been thus divided.

It is by no means necessary that the persons controlling the policy and management of a business should themselves provide all, or even the greater part, of the resources engaged in it: those resources may be provided from some external source. We may conveniently distinguish three different kinds of this external provision of resources: first, the provision of credit for the day-to-day operations of the business; secondly, the initial advance or guarantee of capital for the starting of an enterprise, the responsibility for its provision being afterwards sloughed off on to other shoulders; and thirdly, the outright provision of the capital permanently employed.

(i) The first function is discharged mainly by the banks. Credit may indeed be given by maker to dealer or by dealer to maker: but both are likely to be in some degree dependent on their banks for loans to meet the constantly recurring expenses of their business, whether the payment of wages or the purchase of stocks of goods. This aspect of the work of a bank is in practice inextricably bound up with the analytically quite distinct service of the provision of a secure and economical currency. The convenience of this arrangement and the dangers to which it gives rise have been discussed in the volume on Money in this series; it is sufficient for our present purpose that the banks, by making temporary advances to farmers, manufacturers and traders, incur expenses and assume a certain measure of risk without making themselves in any way responsible for the conduct of the actual routine of production and commerce.

There is great variety in the mechanism by which these loans are made, in the length of time for which they are granted, and in the security which bankers demand for their repayment: their common feature, from the point of view of our present analysis, is that they are continually being repaid and continually renewed. Of special interest and importance is the device by which the loan sometimes takes the form of the purchase of a piece of paper, known as a bill of exchange, certifying that the person to whom the payment is made has sold goods to some other person from whom he has a right to expect payment at some future date, and who accordingly promises to pay up at that date to the person in possession of the bill of exchange. These bills are used

nowadays mainly in easing the passage of goods from one country to another, and play an important part, which does not concern us here, in facilitating the payment of debts between different countries and establishing a relation between their monetary systems. Here they interest us chiefly as a piece of mechanism by which the grower or the manufacturer is enabled to receive payment for his goods before the merchant to whom he sells them is ready to pay him—by which the risks and expenses of trade are partially taken over by persons other than those who actually conduct its operations. They interest us too as a fertile source of fresh specializations. For these pieces of paper need careful handling; and dealings in them are largely concentrated in the hands of specialized firms called bill brokers and discount houses, working partly with their own resources and partly with resources temporarily entrusted to them by the public and the banks. Further, in order to ensure that these bills find a buyer, it is sometimes found convenient that a firm more widely known and trusted than the merchant to whom the goods have actually been sold should make itself responsible for finding the money at the due date; and we find powerful firms called "accepting houses" making a comfortable living out of performing this service of "accepting" bills. But the banks themselves are also both buyers and acceptors of bills on a considerable scale.

§ 2. *The Flotation of Businesses.* (ii) The provision of capital for the inception of an enterprise, or for a definite extension in the scale of its operations, is also to some

extent a function of the banks: but in this matter there are wide differences in the practice of the leading industrial countries. In England the early capitalist employers of the end of the eighteenth century owed a good deal to the numerous though not always very stable private banks which began to grow up about that date; and in the following century the solid and well-managed country banks rendered great services in helping the small local producer to meet his initial expenses, recovering their advances from him gradually as he became able to stand on his own legs. But with the growth of the scale of business it has become more difficult for the banking system to perform this kind of work. The initial requirements of a big manufacturing concern are too large to render their satisfaction a suitable or attractive task for a bank whose main preoccupation is the financing of current trade and the provision of a secure means of making payments at home and abroad, and which can find safe and lucrative employment for its resources in these directions: and this remains true even though the size of the bank has grown *pari passu* with that of the manufacturing firm. And as for the small producer, the very growth in the size of the bank renders it in some ways a less suitable instrument for dealing with his requirements: for it is pretty certain that the local manager of a huge joint-stock company centred in London will take less personal interest in local needs, or at any rate will be allowed less discretion in meeting them, than the old independent country banker.

Nevertheless it still seems to be true that a small man who has given proof of ability and good faith will often

be enabled to get a start in setting up business for himself by the aid of a bank: and that even businesses of moderate size sometimes have recourse to the banks, perhaps more freely than is safe or desirable, for help in financing their original outlay or their subsequent capital extensions. But the larger enterprises must look for such help, if they require it, in other directions—to one of the "accepting houses" mentioned above or some other powerful firm which, having amassed a fortune out of the processes of trade, can afford to undertake such work. Sometimes these "financial houses" provide the requisite resources themselves, more often they only *promise* to provide them in case they should fail to persuade the general public to do so. The various kinds of "underwriter" and "issuing house" are persons or institutions who guarantee, for a consideration, to find the capital required for a new enterprise, and then make use of their name and connections to transfer the liability for the permanent provision of the capital to the general public by inducing it to buy shares in the concern: and it is only in the event of their failing in their campaign of persuasion that they are left as permanent providers of capital.

(iii) In Germany and America the provision of the initial requirements even of large businesses is more commonly undertaken by the banks. But where this practice prevails, the distinction between the initial and the permanent provision of capital is apt to become blurred. When a financial institution, whether called a bank or by some other name, provides the capital for the inception of a large new enterprise, it is likely, even if that is not its original intention, to find that it has

assumed a lasting liability: for the capital involved in laying down a modern large-scale manufacturing plant and building up a business connection is not quickly replaced or easily repaid. And when the powers of finance find themselves thus inextricably involved in the affairs of manufacturing industry, they almost necessarily proceed to take a certain measure of control of those affairs. This topic, therefore, can better be discussed when we come to consider the reintegration of the functions of ownership and control instead of that severance between them with which we are at present concerned.

§ 3. *The Joint-Stock Company.* We may pass on, therefore, to consider the main device by which those who control the operations of modern industry obtain the permanent command of resources greater than they can themselves supply. This is the device of the joint-stock company, an institution the existence of which has necessarily been taken for granted in a good deal of the preceding discussion, since it, rather than the one-man business or the private partnership, is now the predominant form of industrial organization. Theoretically the joint-stock company does not involve any necessary separation of the ownership of resources from their control; and in its earliest applications in England there was no such separation. The great trading companies of the seventeenth and eighteenth centuries were equal associations of merchants for meeting the exceptional risks and expenses involved in foreign trade to such distant and unfamiliar regions as Russia or the East Indies or Hudson's Bay. They were thus merely

extensions of the long-familiar device of the business partnership—the pooling of resources by two or more persons for the purpose of prosecuting ventures which would be beyond the means of any one of them alone. But in its ephemeral extension at the time of the notorious South Sea Bubble (1720)—in its application to canal transport in the late eighteenth and to railway transport in the mid-nineteenth century, and in its final triumph over almost the whole field of industry, the joint-stock company came to involve an entirely new development. It came to involve the collection of savings from numerous widely scattered persons who were themselves unable or unwilling to made productive use of them, and their concentration in the hands of a relatively few active persons who were prepared to employ them in the conduct of industry.

A brief description of the mechanism of the joint-stock company is necessary in order to make its economic implications plain. Company law, of course, varies in important details between different countries, or even (in the United States) between different parts of the same country; but everywhere its outstanding features are the same. A company can be formed on the application to the proper Governmental authority of some quite small number of persons, who are thereupon entitled to invite the public to provide the company with capital by buying pieces of paper called shares or stock. The holder of shares becomes a part-owner of the properties acquired in the name of the company: but he is at liberty to dispose of his holding whenever and to whomever he pleases, and in the event of anything going wrong his liability is limited—that is to say, while he

stands to lose the money he has invested, he is not liable to be called upon up to the whole extent of his fortune in order to help to meet the company's obligations. In both these respects his position differs radically from that of the partner in a private business.[1] The conduct of the business is entrusted to directors elected by the shareholders, the voting rights of the shareholders, both for the election of directors and for other purposes, being usually in proportion to their capital holdings, though a certain elasticity is allowed in this respect. Further, the company is allowed to raise capital from the public by inviting it to buy other pieces of paper called bonds or debentures. The holder of these bonds or debentures is in an entirely different legal position from the holder of shares. He is a creditor of the company and not a part-owner: he is legally entitled to the punctual payment of interest at the rate specified on his bond, and in some cases, though not in all, to the repayment of his capital at a definite date; and in the event of these obligations not being met he has a right to take possession of certain definite pieces of property owned

[1] In England, however, it is necessary to distinguish between the public joint-stock company, which conforms to the above description, and the private joint-stock company, which is not entitled to appeal to the public for capital, and in which the shareholder may not dispose of his holdings except under specified conditions, which usually involve the consent of the directors. Many large and important businesses have adopted this form, which combines some of the privacy of the partnership with the permanence and some of the elasticity of the public company.

Another transitional form, long familiar in the south of Europe and now established in England, is the "limited partnership," wherein one or more of the partners enjoys the same privilege of limited liability as the shareholder of a company, on the understanding that he takes no part in the conduct of the business. Here the separation of ownership from control is theoretically more complete even than in the joint-stock company.

by the company, or to take various other steps to enforce his claims. But so long as everything goes well, being a creditor and not an owner, he does not exercise even a nominal share in the government of the company. In return for the privileges conferred on it, the authorities of the company incur certain obligations, varying in stringency with the legislation in force, with regard to the preparation of a balance-sheet, the terms of their "prospectus" or invitation to the public, and other such matters.

§ 4. *Economic Features of the Joint-Stock Company.* In what we may regard for the present as the typical joint-stock company—such a concern as one of the big English railway companies—the system operates to produce an almost complete divorce between the control of the business and the ownership of the capital embarked in it. The direction of general policy is left almost completely in the hands of the Board of Directors, remunerated by fee, some of whom may only give a small portion of their time and attention to the affairs of the company, while others—in England the Chairman and one or two more bearing the title of Managing Director, in America the President—are expected to devote to its service a large part or even the whole of their business energies. The detailed operation of the company is in the hands, under the directors, of a salaried general manager, beneath whom works a hierarchy of salaried officials. It is true that the shareholders have the right to attend meetings and to vote upon proposals put before them by the directors, and on occasions they may take more or less coherent measures to protect their own interests. In

some companies there are one or two eccentrics who can be relied upon to cut up rusty at general meetings and complain that they have been betrayed; in many there are shareholders of business experience who take a serious interest in the company's affairs, and exercise some sort of check, even if only of a latent and negative kind, on the actions of the directors. But in the main the positive government of the company is left in the hands of the directors and under them of its salaried staff.

Two or three influences which help to increase the concentration of power in the hands of directors are worth particular notice. First, the prevalence of the joint-stock system has brought investment to a fine art: it is the aim of the investor to distribute his risks widely, so as "not to have all his eggs in one basket." In consequence, not merely is every considerable company owned by a number of different persons, but every considerable investor is part-owner of a number of different companies; and it is out of the question that he should give any great measure of thought and attention to them all. Secondly, in many businesses secrecy is still, or is still thought to be, an important factor in success; and when the business is a company it becomes necessary that secrets should be kept from those who own them, since otherwise, by the purchase of a small share, a member of a rival business could easily gain access to them. Thirdly, if the directors are going to be responsible for policy, they must have the means to carry it out; it therefore falls largely within their discretion how far the profits of the company are distributed as dividends to shareholders, and how far

they are set aside in one form or another of reserve fund. Thus there emerges a new and very curious form of differentiation, the full implications of which have not yet been generally grasped—the division of function between those who take decisions about saving and those who undergo the abstention from present enjoyment which saving involves.

The main economic merits and defects of the joint-stock company as compared with the private firm are fairly obvious. On the one hand, by concentrating the savings of many in the hands of a few, it makes it easy to reap the advantages of large-scale organization to an extent which without it would have been quite impossible. Further, the joint-stock company does not die: thus, not merely are the tiresome legal rearrangements involved by the death or retirement of a partner in a private business avoided, but there is a much better chance that the energy and vitality of the whole concern will survive that of any individual member of it, however prominent. Finally, by offering an honourable and successful career as a salaried official to persons without capital or connections of their own, the joint-stock company mobilises in the service of industry much business ability which might otherwise have remained undiscovered or undeveloped.

On the other hand, there is reason to think that a company, especially as it advances in age, tends to become less elastic, less adaptable, less strenuous than a private business. It is apt to suffer in an acute form from the defect of all large organizations, that many things have to be done in accordance with a stereotyped routine which might be better done if they could be left

to the unfettered decision of the moment. That the system should be workable at all is evidence of a very great advance in the standards of business integrity; the deliberate deception and plunder of shareholders has become rare, and, whatever may be said of some of the more ornamental members of Boards of Directors, the whole-time officials of a typical company do appear on the whole to administer its affairs with about as much thought and zeal as though they were the sole owners of the concern. But the very fact that they are in the position of trustees for others, and take that position seriously, has its disadvantages. A trustee is bound to abstain from taking risks with other people's money which he would take with his own, and there is a danger therefore of the policy of a company becoming less enterprising and more stagnant than that of a private business with regard to such matters as the adoption of new technical methods and the organization of new markets. And there is said also to be a contrary danger that a large company will pursue in some directions too ambitious a policy, for that out of vanity or desire for promotion its officials will press for the integration of subsidiary processes which would better be left in the hands of separate firms.

§ 5. *The Machinery of Investment.—Stock Exchanges.* The growth of the joint-stock company of the type described above, while it has led to a further concentration of industrial power in the hands of a relatively few individuals, has led at the same time to a great diffusion and democratization of the rights and risks of ownership. The proportion of the population of a modern country

which can be called in any serious sense capitalists is still small: but it is larger than it would be if everybody aspiring to become a capitalist had to set up in business for himself. The machinery of joint-stock does at least provide an avenue by which the saver of a few pounds can, if he chooses, acquire rights of ownership over the most complicated and expensive instruments of production. And this avenue is made broader by the existence of three devices which can conveniently be considered together—the limitation of liability, the grading of industrial securities, and the emergence of organized markets on which these securities can be bought and sold.

The man who ventures his capital in business for himself is obliged to assume four separate risks—the risk of losing it altogether, the risk that the income it yields him will be a fluctuating one, the risk that he will not be able to lay hands on it if at any moment he wants to use it in some other way, and finally the risk that if anything goes wrong he may be called upon to throw good money after bad. Under the joint-stock system this last risk is entirely eliminated by the principle of limited liability; as has already been stated, the shareholder who has paid for his share has no further liability for the debts of the company.[1] The two first risks can be whittled away to almost any extent that the investor chooses. We have already noticed the

[1] Some shares are "not fully paid-up," i.e. the original holder has only been called on to pay a sum less than their full price, and he or any subsequent holder is therefore liable to pay up the difference if required; but this liability is quite definite and limited in amount. The legislation of 1855-64, establishing the principle of limited liability, was the prelude to an immense expansion of joint-stock enterprise in Great Britain.

difference between the position of the debenture holder, who has legal security for the payment of a fixed rate of interest and for the ultimate safety of his capital, and that of the shareholder who has not. But the shares of a company themselves are usually graded, the broad distinction being between "preference" shares, which carry a right, if the magnitude of the profits permits, to be accorded a certain fixed rate of dividend before the other shares get anything at all, and the other or "ordinary" shares, which take what is left after all expenses have been met, debenture interest and preference dividends paid, and the advice of directors with regard to the accumulation of reserves adopted. Thus the investor is enabled within limits to shoulder as much or as little of the uncertainty of business as he chooses: within limits, because it would be a perilous mistake to assume that all debentures are absolutely safe investments, and because the important risks of loss arising out of changes in the purchasing power of money rest most heavily on those who have contracted to receive a fixed money interest.

The third risk—the risk of being unable to disentangle one's capital from the meshes of industry if one requires it suddenly to finance an operation for appendicitis or some other exceptional item of expenditure—is obviated by the existence of an organized stock exchange, where the securities of all the leading companies can be freely dealt in. The specialized dealer in stocks[1] does not perform such direct and obvious services in the cause of

[1] In England we have to distinguish further between the "broker," who deals on behalf of the outside public, and the "dealer" or "jobber," who deals only on his own account.

production as the specialized dealer in produce (p. 47). There is no question here, as with wheat or cotton, of inducing economy in the consumption of some commodity of which the world will presently find itself short: if the shares of a company never changed hands for twenty years, nobody would be tempted to eat them or make them into clothes. Nor is there any question of enabling manufacturers to get rid of their risks by dealing in the speculative market. Nevertheless the professional dealings in shares do smooth the path of industry in certain definite ways. First, like the dealings in produce, they give some indication of the lines which production ought to follow. If there is a boom in oil shares, there is a presumption that society needs more oil-wells sunk, and that there is a living to be made by anyone who will sink them: though of course this presumption is often not so well founded as it appears to be, owing to the wild and irresponsible nature of much of the dealing in this class of share.

Secondly, which is the point that concerns us more immediately, the machinery of the stock exchange affords the investor a reasonable expectation of being able to get rid of his securities quickly and without heavy loss if he wants to, and thereby encourages many people to invest who would otherwise be unwilling to do so. And by affording similar facilities to the banks, the stock exchange indirectly benefits industry; for if they are to perform their services to industry efficiently, the banks must keep part of their resources in an easily realizable form; and the purchase of easily saleable securities, and still more the loan of resources for very short periods of time to specialized dealers who use them

in the purchase of easily saleable securities, serves this purpose well.

Finally, the stock exchange helps to remove from the genuine investor some of the risks of loss and of wildly fluctuating returns. A new industrial stock is probably bought and sold chiefly by the professional dealers; but after they have tossed and bandied it about among themselves for a time, the general public comes in: and it is only because the professional dealers have subjected the stock to this shaking and sifting process, and have arrived at some provisional conclusion about its earning power, that the general public feels justified in coming in. Thus the dealers share with the financial houses and underwriters the function of the *initial* provision of capital for industry, and at the same time their operations give the public confidence in assuming responsibility for the *permanent* provision of capital.

Thus, by one device and another, the service of providing capital is partially divorced from the service of bearing the uncertainties of business: and this partial divorce is a great feather in the cap of the principle of differentiation, for it tempts into the service of industry a far greater volume of resources than would ever find their way thither if every investor had to take unlimited risks.

CHAPTER VI

FINANCE AND INDUSTRY

"And that's the way" (he gave a wink)
"By which I get my wealth."
Through the Looking-glass.

§ 1. *The Specialization of Industrial Initiative.* The prevalence of the joint-stock company leads to the emergence of yet one more class of specialist which merits our attention. Just as we have distinguished between the initial and the permanent provision of capital for a business, so we may distinguish between the initial display of energy and resource and organizing power necessary to set a business on its legs and the detailed control of its policy and management in the years that follow. In the days of the one-man business or the private partnership these functions were combined in the hands of the "captain of industry": but in the joint-stock era the first is frequently specialized off into the hands of the individual known as the company promoter. The gifts needed for managing successfully a going concern are not precisely the same as those needed for descrying the directions in which new applications or new combinations of capital, labour and enterprise are required, for overcoming preliminary difficulties and for turning a project into an accomplished fact:

and it is in these gifts of "push and go" that the successful company promoter excels. It is his profession to detect new wants or new opportunities of satisfying old ones, and to lend a receptive but critical ear to the hawkers of new inventions: and having made up his mind to jump, to secure financial support for his venture immediately from the underwriters and ultimately from the general public, and to effect the combination of productive resources necessary for the success of his task. Sometimes his scheme involves not the foundation of a brand-new business, but an amalgamation of already existing businesses in the same trade, or a working alliance between businesses in different trades; and in that event much of his time and skill will be spent in the galvanization of sleepy or recalcitrant firms, the composition of mutual jealousies and the valuation of existing properties.

The term company promoter, like speculative dealer, has an ill sound: and there have been many foolish and fraudulent promotions, the memory of which dies, and should die, hard. But to anyone who has grasped the central problem of modern industry—the right distribution of resources between the different occupations clamouring for their use—it will be evident that the company promoter is seated very near the heart of things. The "invisible hand" which is supposed to guide the productive forces of society into those channels where they will contribute most effectively to the satisfaction of wants may almost be said to receive in him a visible embodiment. "There are few who do more to increase the efficiency of labour in creating material wealth than the able and upright company promoter;

he forecasts coming developments, and he aids the public to invest their resources in those fields of industry which will yield the best harvest in coming years." [1]

The company promoter as described above works mainly with resources entrusted to him by other people, and not with his own: and while he may receive his payment largely in the form of shares in the company which he brings to birth, he does not aim at acquiring a permanent share in its control. Such a relatively dull life makes no appeal to him; and once his baby is out of its swaddling clothes, he is off to seek new worlds to conquer. But that is not the way things always happen. If the promoter is not dependent on the underwriters, but is working with his own resources, he becomes a person to whom the often vaguely used term "financier" can be properly applied, and his connection with the companies which he originates is likely to be more intimate and enduring. And this brings us to the threshold of a new and complicated subject—the re-integration which occurs, perhaps to an increasing extent, in the modern world, between the powers of industry proper and the powers of finance.

§ 2. *The Oligarchic Joint-Stock Company.* The upright and energetic conduct by its directors of the affairs even of such a joint-stock company as that described in the last chapter is not quite such a miracle of disinterestedness as might at first appear: for the directors are probably not merely paid officials, but themselves substantial shareholders. And in many cases while a company differs in legal form from a private business

[1] Marshall, *Industry and Trade*, p. 331.

working with a certain amount of borrowed capital, it differs in little else. Sometimes quite a small private firm has turned itself into a company to obtain the advantages of immortality and limited liability, the previous proprietors becoming directors and the actual conduct of the business remaining practically unchanged. Sometimes a private firm has reached a stage of growth at which it can usefully employ a great deal of outside capital, which it obtains by becoming a company and issuing to the public debentures or preference shares: while the original owners retain the majority of the ordinary shares in their own hands, thereby reserving to themselves the main prospects of exceptional gains and the greater part of the voting rights. This is the method pursued, for instance, in such large English businesses as Lever Brothers and Selfridge's.

Sometimes, again, a group of men already rich has bought up in the open market enough shares of an already existing company to secure a predominant interest in its success and an unquestioned control of its management. Sometimes the promoter or promoters of a new enterprise have themselves acquired a block of shares so large as to give them, if they choose to exercise it, a controlling voice in its affairs. This method is open to grave abuse; for if they have not bought the shares for cash, but have received them in payment for their services, the shares may be what is called "water," representing no real physical property at all. In such a case the initial organizers of a business have become its owners by the simple process of furnishing themselves with paper claims on its hypothetical future earning power.

Thus we can distinguish three stages in the evolution of the joint-stock company. In the first it is an assembly of more or less equal partners trading upon a joint stock: it is both owned and managed democratically. In the second stage it is managed by paid officials on behalf of scattered and independent shareholders: it is owned democratically and managed oligarchically. In the third stage the shares are largely in the hands of an inner ring who control the management and policy: the company is both owned and managed oligarchically. And in so far as any existing company approximates to this type, it becomes perilous and misleading to draw inferences about the disinterestedness of human nature from the fact that it is managed with energy and initiative: for those who control it are playing for the most part with their own cards and for their own hand.

§ 3. *The Financial Machinery of Combination.* But it is not merely the ownership of a single company which can thus be concentrated in the hands of a small group: The joint-stock system is fertile also in resources for securing a more or less complete identity of the ownership and control of what nominally and in the eyes of the law are separate companies. The tendency towards combination, discussed in Chapter III, § 4, does not always operate through the complete fusion of several independent enterprises into one great concern. Apart from those associations for purposes of sale only, which have been already discussed (Chapter IV, § 4), it operates also through a surprising variety of expedients for securing a community of interests and policy between them.

In America, the classic home of great combinations

of capital, we can distinguish three main devices for effecting this object—three main outfits, as it were, of financial fancy dress besides the simple costume of the single giant company. The first is the "Trust," properly so called. Under this form, which is now obsolete, the shareholders of the separate companies made over all their stock to a number of trustees, who received power of attorney to deal with it as they thought fit, and who issued instead of it trust certificates, carrying a claim to the payment of dividends, to the original shareholders. Thus both the nominal ownership and the effective control of the separate companies passed into the hands of the small group of powerful trustees. This was the form adopted by the great combines in the oil and sugar and whisky trades when they first appeared in the early 'eighties.

The second form is the "holding company"—an arrangement under which the whole or a majority of the stock of the existing companies is taken over by and held in the name of a new separate company, which may or may not also directly acquire properties of its own, and whose shares are distributed among the shareholders of the original companies. This was the form adopted by the Standard Oil Combine for twelve years of its eventful life: but its most prominent instance is the great United States Steel Corporation, founded in 1901 to acquire practically the whole stock of eleven powerful companies, themselves in many cases the result of previous amalgamation, as well as a substantial interest in other companies; and a number of iron mines and other properties of its own.

The third form is a more elastic one, and may be

described rather vaguely as management by community of interests. The companies remain completely separate, but a small group, by the practice of "interlocking directorates" (the acquisition of seats for the same persons on the various boards of directors), by the ownership of a majority of stock in every company, or by both methods, retains effective control of all of them, and works them in harmony. It was in this disguise that the Standard Oil Combine took refuge after the Trust proper was declared illegal in 1892, and again after the holding company was dissolved in 1911: in the latter case thirty-eight separate companies were formed, which were forbidden to have common officers or directors, but which seem, nevertheless, to be largely owned and inspired by the same people.

In England the Trust proper and the holding company proper have not made their appearance. The giant fusion and the management by community of interests are by no means unknown, and they are sometimes found together, as in the sewing cotton and cement trades, in each of which there are two powerful firms, which between them control most of the trade, and which work in close co-operation. But the commonest process in England has been the buying up of a number of small companies by a large one, or the union of two or more companies of nearly equal strength: in either case the shareholders of the weaker companies receive stock of the dominant company in exchange for their shares, which pass into the possession of the dominant company. Such a combine differs from the pure American holding company in that the company which becomes dominant is not created for the purpose, like

the Steel Corporation, but is already the strongest producing unit, though of course its own plant may be small as compared with the *aggregate* of those of which it acquires indirect control. This is the method by which combination has proceeded in the iron and steel industry, in the soap and allied trades, and among the great retail shops of London.

The differences in the forms adopted by combination have often been dictated merely by a desire to evade the attentions of the law: but they do also involve genuine if limited differences in economic method. Under a holding company, for instance, whether of the English or American type, there is likely to be a greater decentralization of industrial power than under a system of complete fusion: the directors and managers of the several companies are likely to be allowed rather greater freedom and initiative than the branch managers of a single huge business. Moreover, it does not necessarily follow that in every case in which a combination dominates a trade, a few individuals completely dominate the combination: the shares of some of the big combines are very widely held, and their management no more, if no less, autocratic than that of an ordinary joint-stock company. But on the whole it is true that the great combinations, whatever their legal form, have owed their origin to small groups of exceptional men who have derived from them riches as well as power: and that the new ramifications of the joint-stock system have tended to concentrate the government of industry into the hands of men who have the most direct financial inducements to conduct it with energy and determination.

§ 4. *The Financial Penetration of Industry.* But the process of reintegration of control with capital ownership has not stopped here. In Germany and America, at any rate, the banks and the financial houses have not been content with what we may call their English functions of providing current credit to going concerns and setting new ventures on their legs. The powerful groups controlling them have used their resources to acquire permanent ownership over a large field of industry, and, as has been already pointed out, such permanent rights of ownership almost inevitably involve a certain measure of permanent control. In America this process has been somewhat spasmodic and spectacular, manifesting itself through the operations of the ordinary banks, of the great financial houses like J. P. Morgan, and of the various kinds of trust and insurance and investment company which in one way and another collect the savings of the public and invest them in industrial enterprise. A few years ago it appeared that very large tracts of transport, mining and industrial enterprise were passing rapidly under the control of a few groups of financiers; and though this development seems to have been temporarily checked by the drastic reform of the banking system and by stringent legislation against "interlocking directorates," it is impossible to feel certain that it has been permanently arrested.

In Germany the integration between finance and industry has been more systematic and thorough, the five great groups of banks having deliberately devoted the main part of their resources to the development and penetration of German industry. "Berlin high finance," wrote a German authority in 1900, "unquestionably

dominates the most representative and the largest businesses in every branch of production" [1]: according to this writer one or other of seven banks held a seat on the Boards of Control of three hundred and fifty large industrial companies. In England, as already explained, the banking system has been too much preoccupied with other matters to attempt seriously to shoulder the risks and responsibilities of industry. A special financial institution, the British Trade Corporation, founded after the war with this object among others in view, does not appear to have attained it: though private groups of financiers have made irruptions, not always with the happiest results, into even such conservative strongholds as the cotton trade of Lancashire.

When industry and finance become interwoven, it is not always easy to be certain which dominates which. Sometimes the industrialist seems to be in control: thus the Standard Oil Combine in America and the two giant electrical companies in Germany have owned their own banks.[2] But as a rule the last word seems to be with the financier, and his growing power over industry raises difficult issues. Its evil side is sufficiently obvious. No man can master all trades: even Mr. Pierpont Morgan failed as a shipowner, and Mr. Solly Joel is not likely to feel so much at home in a cotton factory as on a race-course. The skill and experience of the specialized business leader whose whole life has been devoted to the study of the problems of a particular trade is not an

[1] Marshall, *Industry and Trade*, p. 343.

[2] Thus also in Germany and elsewhere groups of small agriculturalists and industrialists have united to provide themselves with their own banking facilities, and we get the co-operative credit societies associated with the names of Raiffeisen and Schulze-Delitzsch.

asset to be lightly thrown aside: and there is danger lest the permanent interests of a whole industry, involving the livelihood of millions, should be subordinated to the temporary enrichment of an alien group to whom it is only one of many irons in a large and somewhat uproarious fire.

On the other hand, the financier is in many ways better situated than the specialized industrialist for taking a wide and detached view. If he is less well qualified to handle the secondary problems of industrial government —the actual conduct of the several branches of industry —he is in a position such as no man has yet been for grappling intelligently with its primary problem, so long left to the precarious and intermittent pressure of the "invisible hand"—the problem of the right direction of the flow of productive resources into the several channels demanding their use. Like the humbler and blinder business man who ploughs a single furrow, "it is his own advantage indeed and not that of the society which he has in view," and the combination of special knowledge and great wealth lead to a formidable concentration of power in his hands which may be used unscrupulously and is certain to be used for his further advancement. But he has at least the chance of thinking magnificently; and it seems probable that on the whole society may be at least as much enriched by his effective foresight as it is impoverished by his rapacity.

CHAPTER VII

A SURVEY OF CAPITALISM

"'Tis so," said the Duchess; "and the moral of it is 'Oh! 'tis love, 'tis love, that makes the world go round!'"

"Somebody said," whispered Alice, "that it's done by everybody minding their own business!"

"Ah, well! It means much the same thing," said the Duchess.

Alice's Adventures in Wonderland.

§ 1. *The Un-co-ordinated Nature of Capitalism.* All the developments of business organization which have been discussed in the last five chapters, with the possible exception of some of the types labelled Co-operation (pp. 55, 82), fall within the boundaries of what may be somewhat vaguely described as Private Enterprise or Capitalism. We may therefore conveniently pause at this point, and attempt to discover and to express what exactly it is that constitutes the unity in all this diversity of industrial structure—what are the essential features of this thing called Capitalism: for by so doing we shall be in a better position both to understand the motives of the attempts and proposals which have been made to supplement or supplant it by some other scheme of industrial government, and to appraise the difficulties which lie in the way.

In the first place, then, we must remind ourselves once

more of the central fact about the government of modern industry—that strictly speaking there is no such thing. "The normal economic system works itself. For its current operation it is under no central control, it needs no central survey. Over the whole range of human activity and human need, supply is adjusted to demand, and production to consumption, by a process that is automatic, elastic and responsive. . . . This intricate system has been built and is maintained by the work of thousands of men, of keen but limited vision, each working within his own special sphere, each normally seeing and knowing only his own and the immediately adjacent territory. . . . Since the rude shock of war broke this machine the world has been looking for the supermen who made it and controlled it, for those who understood it both in its basic principles and its infinite detail, and could therefore re-fashion and re-model it to the new conditions. It has not found them. They do not exist." [1]

Here and there, it is true, we have found islands of conscious power in this ocean of unconscious co-operation, like lumps of butter coagulating in a pail of buttermilk. The factory system itself, while it involves endless specialization of the work of ordinary men, involves also deliberate co-ordination of their diverse activities by the capitalist employer; and the head of a single big business to-day exercises a width and intensity of industrial rule which a Tudor monarch might have sighed for in vain. Further, as we have seen, combination, the integration of raw materials and marketing processes, the financial penetration of industry, all in

[1] J. A. Salter, *Allied Shipping Control*, pp. 16–17.

their way and their degree increase the number and size of the patches of ground which are brought within the vision and to some extent within the control of a single intelligence. But even these patches are still small and scattered in comparison with the whole field of economic life. In the main the co-ordination of the efforts of the isolated business leaders is left to the play of impalpable forces—news and knowledge and habit and faith, and those twin elementals, the Laws of Supply and Demand.

This way of doing things has many advantages. "It is the distinctive feature and signal merit of that system that under it the multitudinous economic activities of the world are, so to speak, democratized. They govern themselves with all the liberty and elasticity and variety of freedom."[1] A magnificent scope is offered to individual judgment and initiative and courage. Vested interests are hurled aside out of the path of economic progress. Within the wide limits allowed by the law, and the stricter bounds set by social opportunity, each man is at liberty to spend both his life and his income as he chooses. Even in bad times the vast majority of the productive resources of society, both human and material, are being utilized, and the faith in which they have been launched into various channels of endeavour is found to have been not misplaced. And on the whole the wants of consumers, so far as these wants can be expressed in the offer of a money price, are punctually and fairly abundantly supplied. When we reflect on the apparent chaos of the whole proceeding, the wonder surely is, as Dr. Johnson hinted in comparing the woman who writes books with the dog which stands

[1] J. A. Salter, *Allied Shipping Control*, pp. 16, 17.

on its hind legs, not that the thing should not be done better, but that it should be done at all.

Yet it is no longer possible, if ever it was, to pretend that the results are wholly satisfactory. Wants which cannot clothe themselves in money are left undetected and unsatisfied, and the luxurious fancies of the rich exert a stronger pull on the productive resources of the community than the stark needs of the poor. The maw of Marketing, with its handmaiden Advertisement, absorbs a proportion of those resources which may indeed be necessary to the effective working of the whole arrangement, but which could scarcely strike an unprejudiced observer as anything but wasteful and excessive. Worst of all, there occurs at fairly close and regular intervals a partial breakdown of the whole machinery of spontaneous co-ordination; large masses of industrial equipment are left stranded and unused, and large numbers of workpeople who seek only the opportunity to supply one another's wants find themselves at one and the same time in enforced idleness and in bitter need.

The chaos, partly apparent and partly real, of capitalistic industry suggests many reflections, of which two may be singled out for our present purpose, the one bearing a message of hope, the other of warning, to the would-be reformer. The first is that amid all the welter of disconnected industrial entities it would be strange if there were not room for further diversity and experiment. To speak of "abolishing the present industrial system" may darken counsel, since strictly speaking there is no system to be abolished. Modern industry is in a sense the most Catholic of Churches, where, provided

he observes the ordinary decencies of life, each may worship as he pleases without fear of prosecution for heresy; and, as we shall see later on, a number of experimental forms of industrial enterprise can and do try their luck side by side with the survivors of the handicraft and merchanting systems, with the small employer and the giant company. From the fact that sudden and sweeping change has failed in some countries and does not seem to be within the range of practical politics in others, it does not necessarily follow that the last word in industrial government has been said by the financier or the Trust.

But secondly, if there is no system to be abolished there is also no throne to be captured. To transfer power from those who have it to those who have not may be a wise or unwise proceeding, but it is at any rate a definite and measurable programme which can be accomplished if the strength of the attacking force is great enough. But the task of the reformer of industry is not so simple as that. That great concentrations of industrial power do exist the foregoing chapters have abundantly shown; and that this power should and could be more equally shared is a very tenable proposition. But if we could redistribute in the best possible way all the power over industry that exists at present, the race of men that we should create would still be a feeble folk, doing inadequate battle against uncontrolled and largely uncomprehended forces. The control of industry, in the fullest sense of the words, requires not so much to be wrested from a band of supermen who are keeping it in some secret cupboard, as to be painfully built up out of the clay of man's ever-changing technical achievement,

and fixed out of the troubled atmosphere of his tumultuous needs and desires. And it behoves the reformer to beware lest in pursuing this difficult goal he overlook the achievements and impair prematurely the operation of that delicate mechanism of price and profit, faith and expectation, which is at present our only substitute—imperfect makeshift though it be—for the routine orders and operation orders of a single all-directing intelligence.

§ 2. *The Association of Control with Risk.* The next leading characteristic of Capitalism can be put provisionally in the form of the proposition that where the risk lies, there the control lies also—a proposition so important that it may almost be described as Capitalism's Golden Rule. The assumptions underlying the arrangement seem to be two, and though they are closely related it is important in some connections to keep them separate. The first is that the power of making decisions will be most wisely exercised if it rests in the hands of those who stand to lose most heavily if the decision turns out badly. The second, which follows psychologically from the first, is that the risks of industry will be most bravely shouldered if those who shoulder them are not obliged to hand over to others the power of making decisions about the use of the resources which they put to the hazard.

It is often said that the main motive actuating the modern business leader is the hope of profit; but in so far as this is a correct reading of his heart we must couple with the hope of profit its obverse—the fear of loss. By trading losses, culminating in extreme cases in complete failure and bankruptcy, society exacts a ruthless penalty from those who waste the productive

resources entrusted to their care, or use them in ways which fail to respond to the imperious caprices of money demand. It seems likely on the face of it, first that those who play with such stakes will actually make better decisions than those who do not; and secondly, that in any case they will *think* that they will do so, and will therefore not allow much decision-making power to pass out of their own hands without declining, to the great injury of mankind, to put the stakes on the table.

It is true that a number of real or apparent qualifications of these principles must be admitted. In the first place it is, as we have seen, the ordinary shareholders of a joint-stock company who bear its main risks, both of temporary ill-fortune and of permanent failure; for though the machinery of the Stock Exchange enables them to get rid of their holdings, the price which they will receive depends on the dividends and prospects of the company, and may vanish to nothing at all. Yet these shareholders delegate their decision-making power almost completely to paid officials. We must not minimise the importance of this remarkable development, which is full of promise for social progress: but at the same time we must be careful not to interpret it too hastily. Often, as we have seen, the severance between predominance in the ownership of a company and direction of its policy is apparent rather than real: and even when this is not so, the bulk of shareholders frequently derive confidence in delegating their powers from a well-founded presumption that the directors themselves have a substantial financial interest in the company's welfare. The golden rule is infringed indeed, but not so seriously as at first sight appears. And so far

as it *is* infringed, its infraction brings social loss: for the sense of trusteeship is apt to make directors chary of increasing the risks borne by their shareholders, and to lead them to pursue a policy less enterprising than the interests of society demand (p. 68).

Secondly, a survey of the economic world reveals various classes of persons who appear to assume part of the risks of industry without arrogating to themselves any share in its control. But here again we must be careful. In the first place these specialized risk-takers—the insurance company, for example, or the speculative dealer in cotton or in foreign currencies—make their living partly indeed by *bearing* risks, but partly also by the less nerve-racking process of merely setting them against one another and *destroying* them. Secondly, even these specialists, while standing apart from the main council-hall of industry, take the decisions which are relevant to the risks which they assume: the expert speculator is less likely than anyone in the world to hand over his mind to be made up for him by someone else. Thirdly, the risks which can be thus devolved on to specialists are limited in range and number. The main risks of business arise from the fallibility of the human judgment grappling with elusive and complicated data; and from most of these risks no business leader can escape without partial abdication of his leadership. Such risks may, as we have seen, be bandied about and rationed out in various ways among the diverse kinds of maker and dealer and financier: but whoever assumes them assumes with them functions of government over a slice of the industrial world. Thus from this test the golden rule emerges substantially unscathed.

But finally, there are many persons—more persons than not—who incur risks of an important kind without acquiring any share in industrial government. The whole body of manual workers launch not indeed their material capital, but the strength of their arms and the skill of their hands in ventures over the issue of which they have no control. It is true that the workman is paid, and paid promptly, a relatively steady wage while the capitalist takes his chance of a fluctuating and possibly even of a negative profit. But wage movements in both directions are more rapid and extensive than they used to be, and behind there lies the far graver risk that no wages will be paid at all because no work will be required. The business leader who mishandles his resources or misjudges his markets is penalized not only in his own person, but in the persons of those who have enlisted in the battle for livelihood beneath his banner. To thousands who have felt the rod of unemployment and to millions who live beneath its shadow, the statement that the capitalist bears the sole risks of industry and naturally therefore wields the sole control, comes with a bitter and provocative irony.

§ 3. *The Risks of Workpeople in their Bearing on the Control of Industry.* Yet here, again, we must analyse carefully if we are to attain to serviceable truth. Broadly speaking there are three kinds of risk which a workman incurs when he throws in his lot with a particular business enterprise. There is, first, the risk that the firm will meet with bad luck, or be rashly and incompetently managed, while its rivals prosper and expand. There is, secondly, the risk that the product which it turns out or the process

which it exploits will be permanently superannuated by the shiftings of demand or the progress of technique. There is, thirdly, the risk that the firm will be caught periodically in the trough of a trade depression, from which it will emerge indeed in the fullness of time, but which will involve a prolonged curtailment of its activities, with trading losses for the capitalist and unemployment for the workpeople.

Now as regards the first danger the workpeople in reality run comparatively little risk: for they can without much difficulty transfer their services elsewhere, while the capital, embedded and crystallized in the business in the form of machinery and trade connections, is incapable of disentanglement. Those who can with honour leave the sinking ship are ultimately in a stronger position than the captain who must go down upon the bridge, and have less claim therefore to be entrusted with the manipulation of the wheel.

As regards the second danger, if the workman is not highly specialized he stands a good chance of finding employment in the rival and victorious industry, or in some other, and the case does not differ materially from that just discussed. If he is highly specialized, he stands to lose all he has, but not through the capitalist's fault. It will not be bad management that ruins him, and the best management cannot save him long. The decision relevant to the risk which he runs has been taken by himself or his parents, not by the capitalist, and it may be unlucky, just as the capitalist's may. That society ought to help him to choose wisely in the first place, and to retrieve an unwise or unfortunate choice later, is

doubtless true; but that is another story. The immediate point is that no improvement of the methods of control can here much affect the issue, and that in consequence the risk of being thrown permanently on the scrap-heap is not the kind of risk which can be made appreciably more palatable by being associated with control of one's movements towards the heap. These considerations apply alike to capital and labour, and so far as this risk goes the question of which should exercise control must therefore be decided mainly on other grounds than those which underlie the golden rule.

The third type of risk seems at first to raise precisely similar considerations. Trade depression strikes capitalist and workman alike with blows whose relative force we have no direct means of measuring, but which certainly fall with very great severity upon the workman. Yet the causes of trade depression are so obscure and deep-seated that there is at present very little control over them for the workman to share, and at first sight little grounds for urging that his intervention in the government of industry would improve matters.

This, however, is not the whole truth. In some trades at least the capitalist has no very compelling motive to minimise instability and fluctuation. It may be that aggregate profits over good times and bad will actually be greater than if industry were perfectly steady: and the capitalist has at his fingers' ends the various devices of investment and of manipulation of reserves for equalising the flow of his personal income. And even if the interest of the whole body of capitalists is on the side of stability, an individual capitalist may further his own interests by taking decisions which are injurious to

the trade as a whole. If at a time of booming freights a ship can be made to repay its capital cost in three months, a new ship will be ordered and its construction pressed ahead even if the subsequent slump in the freight market is clearly foreseen and is evidently likely to be aggravated by the existence of the new ship. To the workman, however, these alternations of feverish activity and enforced stagnation, of overtime and unemployment, come as an unmixed evil; and there is little doubt that in this matter his interest conforms more closely to that of society as a whole. Here, then, is a direction in which control might on the face of it be wielded more satisfactorily if the golden rule were more strictly observed. And the secondary effect of such a stricter observance, in stimulating the workman to assume more readily the risks of learning a specialized trade, might also (as the chronic shortage of skilled labour in certain branches of the English building trade suggests) turn out to be of perceptible importance.

The conclusion of the whole matter may be thus stated. Our analysis of the working of the golden rule of Capitalism suggests that one of the current criticisms of that institution falls somewhat wide of the mark. That criticism is to the effect that "under the existing system" the supreme control of industry rests with the idle owners of capital, instead of with the active doers of work by hand or brain. If that were so, the transference of control into more desirable hands would be a relatively easy task. But we see that it is not so—that control "under the existing system" is associated not with mere ownership, but with the assumption of the risks of loss: and there is therefore some ground for

suspecting that no scheme for the transference of control will be watertight unless it makes provision also for the transference of risk. On the other hand, we find that Capitalism breaks its own golden rule in certain significant respects from which the industrial reformer may fairly draw some inspiration. First, the phenomenon of the joint-stock company shows that at any rate passable decisions are actually made by those who do not bear the predominant financial risks, and suggests that the spirit of trusteeship which here receives a real if limited application may be capable of further development. Secondly, Capitalism's own gospel gives some warrant for suspecting that Capitalism's worst malady—recurrent trade depression—is intensified by the exclusion of those who shoulder some of its ugliest risks from any participation in the government of industry.

§ 4. *The Social Consequences of Large-Scale Industry.* These considerations lead us on to the third characteristic of Capitalism which requires re-emphasis at this point on our journey—the sharpness of the differentiation which it entails between those who own and plan and control and those who execute orders. This distinction, indeed, in the form of the antithesis between monarch and subjects, general and troops, slave owner and slave, craftsman and journeyman, employer and employee, runs right through human history: but though it was not created, it has without doubt been sharpened and accentuated, by machinery and the factory system.

The vast economic advantages of the division of labour, even in its simplest form and still more in its advanced

form of elaborate standardization, have had to be purchased at the cost of a certain amount of social and spiritual loss. There has, in some trades though not in all, been loss to man as consumer from the substitution of uniform, ugly and shoddily-made machine-goods for varied and beautiful goods constructed solidly by hand. How far this loss is necessary is another matter: there seems on the face of it no reason why machine-made goods should not be at least as well constructed and even as beautiful as hand-made goods, even if the claims of standardization do not permit of their exhibiting such agreeable variety: and the great movement for solidifying and beautifying the products of massed industry which can be traced back to such eighteenth-century leaders as Wedgwood and Boulton, has no hopeless task in front of it. More fundamental and more difficult to counteract are the reactions of standardization on man as producer.

However beautifully and honestly made the final products of industry may become, they must inevitably, if advantage is to be taken of the immense power of modern machinery, involve the co-operation of numerous minute and monotonous processes; and this necessity applies also to the production of those intermediate goods, such as most iron and steel products, which are desired not as a source of enjoyment in themselves, but as a means for producing direct sources of enjoyment. Thus the modern developments of industry render it necessary, if the standard of comfort that they have made possible is to be preserved, that most people should spend the greater part of their working lives in the ceaseless repetition of some one more or less monotonous and

soul-destroying job, while at the same time the progress of education and democracy renders this necessity ever more and more unpalatable. It has been urged that there are compensations of various kinds. Thus orthodox economists have argued that while machine industry may have diminished the need for purely technical skill, it has on the whole increased the need for general intelligence and adaptability and strength of character. Critics of a very different school, the poets of Russian Bolshevism, have acclaimed the factory as the source not of the degradation of the proletariat, but of its unity, its inspiration and its power.[1] But whatever truth there may be in these contentions, Capitalism cannot be said to have solved the problem thus created. The latest and most logical extension of the factory system—Scientific Management—aims avowedly at taking from the workman the last vestiges of responsibility for and control over his work. Everything is to be settled by the stop-watch and the instruction card: the distinction between planning and execution, the division of labour between the brain user and the muscle user, becomes complete. But even where such thoroughgoing methods are not in force, the general effect of the progress of industrial technique seems to be to accentuate the divorce of thought from toil at the very time when

[1] Thus A. Gastev (quoted in *New Europe*, Nov., 1919, p. 113):—
"When the morning sirens sound in the working suburbs, it is not at all a call to subjection. It is the song of the future.
Some time ago we toiled in wretched workshops and began to work in the mornings at various times.
And now the sirens sound at eight o'clock for a whole million.
A whole million take up the hammer in one and the same instant.
Of what sing the sirens?
It is the morning hymn of unity."

such a divorce has become, from the broader social and political point of view, most resented and perhaps most dangerous.

There are other aspects, too, of Capitalism which serve to widen the gulf between the giver and receiver of orders. The mechanism of the typical joint-stock company has certain economic drawbacks which have already been discussed: but it has also the social disadvantage that the effective leaders of industry, being trustees for their shareholders, are no longer entirely their own masters in their dealings with their workpeople, since they are necessarily on their guard against being too generous with other people's property. The old capitalist employer was not always sympathetic or popular with his men: but he was at least a person and not an abstraction; it was at any rate possible that he should inspire feelings of personal loyalty and affection, and he frequently did and does so. But it is scarcely reasonable to expect, say, a railway worker to feel any intense devotion towards the shareholders of the Great Western Railway, most of whom he has never seen nor wishes to see, and whom he rightly supposes to be profoundly ignorant of the problems which affect his life: and though such feelings may be in part transferred to the directors and managers with whom he has some kind of contact, that process is made more difficult by the fiduciary position in which they are placed. Their relations with their workpeople are apt to be refrigerated by something more strong and subtle than mere cupidity or lack of sympathy—the sense of professional obligation and of an allegiance owed elsewhere.

Finally, it must be remembered that the backwash

towards integration which we have detected in various tracts of the industrial ocean has reference only to the supreme business leaders. For the manual worker the current towards further and further differentiation rages almost unchecked: and the fact that somewhere far above him functions hitherto divided have been gathered up into a single powerful hand only serves to increase his sense of separateness from the forces which govern his life. The Napoleon of industry or finance is, like the shareholder, a remote and impalpable being compared with the familiar "employer" of earlier times; and though he may succeed in creating something of a Napoleonic legend and exercising something of a Napoleonic fascination over the minds of his subjects, his emergence has increased and emphasized the distasteful inequality in the distribution of industrial power.

CHAPTER VIII

INDUSTRY AND THE CONSUMER

The sheep took the money, and put it away into a box. then she said, "I never put things into people's hands—that would never do—you must get it for yourself."

Through the Looking-glass.

§ 1. *The Consumer's Grievances against Capitalism.* Armed with these reflections on the nature of Capitalism, its strength and its limitations, we may proceed to an examination of the attempts which have been made, in imagination and in practice, to modify it, to supplement it, or to wipe it off the face of the earth. We may approach our task by dividing such attempts provisionally into two main classes, though we shall find as we proceed that the line of division tends to become blurred. In the first main class the motive force is supplied by the feeling that though under Capitalism the consumer is the ultimate king, to whose service even the most Olympian captain of industry must dedicate his days, yet in one way or another his interests are in danger of neglect. In the second main class the motive force is supplied by the considerations which have been developed at the end of the preceding chapter—by grief or indignation at the utter exclusion of the ordinary worker in capitalist industry from all share in control over

the conditions and results of his work. It is with the first main class that this chapter and the next will be concerned.

The grievances, real or imaginary, of the consumer "under the existing system" may be tabulated in some such form as follows. First, there is the danger that he will not always be able to buy what he is trying to buy. According to the theory of Capitalism he expresses his desires to the middleman, who transmits them to the manufacturer and sees that they are satisfied. But in this process at its best there is room for delay and misapprehension. Further, both maker and dealer have a strong interest in selling what they have got, and in continuing to make and stock what they have made up their minds to make and stock. From every hoarding and newspaper and tube train carriage they explain vociferously to the consumer what he wants, until he almost—but not quite—comes to believe that it is true. Finally, it is not given to everyone to detect at sight, or at any rate to be able to prove, the difference between home-grown and imported beef, between milk of the plain and watered varieties, between the pill which is 100 per cent sugar and that which is really as efficacious as a small-tooth comb. On the whole the forces of competition and publicity prevent such grievances nowadays from reaching serious dimensions; but they exist.

Secondly, the average consumer is prone to suspect that the prices of the goods which he buys are unnecessarily loaded with payments for the services of superfluous middlemen. In this he may be judging hastily, but we have already indicated a limited sympathy with his attitude.

Thirdly, the consumer may suspect that the supply of certain goods which he buys is being curtailed and their price raised by the monopolistic action of producers or dealers. Enough has been said in the previous chapters of the concentration of industrial power, of the combine and the selling agency, to indicate that his suspicion may often be well founded: and it is important to be clear exactly wherein his grievance consists. It is not that he is being forced to pay a higher price for the goods that he buys than they are worth to him; for he is free to take them or leave them as he chooses. It is that the monopolist finds it to his advantage to sell a smaller quantity of goods at a higher price rather than a larger quantity at a lower, and restricts therefore the flow of goods below what it would be if competitive conditions prevailed, diminishing thereby the aggregate enjoyment of the consuming public.

The fourth grievance affects the consumer not of to-day, but of to-morrow and the day after. It is possible that self-interest is leading private capitalists to make reckless exploitation of certain natural resources—animal stocks or minerals or forest trees—to the great advantage of the present army of consumers, but to the prejudice of the interests of future generations, or even of existing generations in future years. In his individual capacity the present consumer is not likely to complain; but as a thoughtful citizen he may make the grievance of the future his own, or at least acquiesce in such action by others.

The fifth grievance is of a more far-reaching and subversive kind. Capitalism only bows down to the

consumer so far as his wants are interpreted to it in terms of a money offer. But they may be incapable of being thus interpreted, for either of two reasons. He may be unaware that he wants something, such as education for his children, and therefore never dream of offering a money price for it. In this case his grievance is unconscious, but, according to some views, none the less real; moreover, as in the instance given, his failure to realize his own wants may give rise to a grievance on the part of other people. Or, more simply still, he may want something very badly, such as bread, and be unable to offer a money price for it because he has not enough money.

Now some of these grievances are partially redressed by the use of the negative or inhibitory powers of the State (p. 3)—the first by legislation against adulteration and fraud, the fourth by restrictions on the cutting of timber, the slaughter of fish and game, etc., the third by a great variety of devices which will call for brief comment at a later stage. But the detailed study of such negative control lies outside the limits which we have imposed on our subject, and we must pass on to more thoroughgoing schemes for removing the consumer's disabilities. These all embody, in one form or another, the ambitious notion of undoing the great division of function which first took place when Eve picked the apple and Adam ate it, and reintegrating the consumer with the producer: not, however, by a return to the penurious self-sufficiency of the household system (p. 8), but by handing over the reins of industrial government to the appointed representatives of the consuming public.

§ 2. *The Methods of Consumers' Co-operation.* Within this imposing edifice we must enter in succession three rooms, each conveniently labelled with the consumer's own initial—Co-operation, Collectivism and Communism. Co-operation entails the voluntary banding together of consumers to acquire and manage some business on their own behalf. Collectivism entails the ownership and management of a business by those compulsory associations called States or their subdivisions, retaining the capitalist expedients of price and market. Communism entails the management of a business by the same methods as Collectivism, but without the exaction of full payment for the services rendered, and without regard therefore to the economic calculus of gain and loss. Roughly speaking, the attention of Co-operation is focussed on the consumers' first two grievances, of Collectivism on the next two, and of Communism on the fifth.

The word "Co-operation" is perhaps the most confusing in the terminology of economics. In a broad sense it may be used either to denote the mutual assistance of similar agents (as two workmen co-operate in lifting a weight or two shareholders in bearing the risks of a joint-stock company), or the mutual dovetailing of the functions of dissimilar agents (as labour and capital, or the merchant and the manufacturer, co-operate in the production of wealth). In its narrower sense it is used to describe a number of forms of industrial enterprise which are connected not so much by similarity of structure or specific purpose, as in virtue of the ideal which animates, or is supposed to animate, those who conduct them—an ideal which may be vaguely described

as mutual service by the relatively weak with the view of preserving their economic independence. It has been found convenient to mention Agricultural Co-operation and Co-operative Banking in connection with the analogous developments of ordinary Capitalism (pp. 55, 82); but the former in particular has strong affinities with the Consumers' Co-operation now to be discussed.

In the minds of its English pioneers, the co-operation of ordinary consumers for the purpose of conducting retail trade was only one aspect of that general vision of the self-sufficing and self-governing commune which exercised such a sway over the imaginations of the idealist reformers of the first part of the nineteenth century. But in their hands, and especially in the hands of the famous society of Rochdale weavers (1844) which became the model for the whole movement, it crystallized into a more limited but more practical and definite form of industrial organization, whose leading features can be very simply described. The members of the local co-operative society are both the customers and the owners of their own retail shop or shops. Membership is open to anybody on payment of a small capital subscription, and carries the right to a vote in the election of the committee of management and on other matters submitted at general meetings, as well as informal opportunities of criticism and suggestion. The manager of the shop is a whole-time salaried official, and is responsible to the committee of management, who are usually ordinary members of the society, giving only a fraction of their time to the business, and remunerated by small fees. The capital is raised entirely from the members, and is paid a fixed rate of interest. The

prices charged are usually about the same as those charged by other retailers, and what in an ordinary business would be called the profits are devoted partly to the extension of business, partly to various social and educational objects, and partly to the payment to members of a dividend proportioned to the value of their purchases, which is usually, though not compulsorily, reinvested in the business.

But Consumers' Co-operation has not stopped short at the retail trade. In all countries where it has obtained a firm hold it has been gradually led on to attempt, with varying success, a more or less comprehensive programme of *integration*. To achieve independence of the capitalist wholesaler, the local societies federate to form a central wholesale society, which is owned and managed by themselves on the same kind of principle as that on which they are owned and managed by their members. Both the retail and the wholesale societies develop productive departments, which like the selling departments are put in the hands of paid managers. The English Wholesale Society produces in its factories a vast variety of food, clothing and other household products, and owns also its own ships, farms and tea plantations, as well as doing banking and insurance business on a large scale.

§ 3. *The Merits and Limitations of Consumers' Co-operation.* Loyalty to the ideals of the movement and the attractive force of the dividend on purchases combine with the intrinsic merits of the co-operative retail store to secure for it the steady custom of its members; and it is thus enabled to dispense with expenditure on

advertisement and on keeping a wide range of goods a long time in stock to meet the caprices of casual demand. The same force of loyalty puts at its disposal the services both of general supervision and of detailed management at a rate lower than that which has to be paid by private enterprise. These are real advantages which have gone far to promote the success of the co-operative store in competition with the private retailer. But it has its weaknesses as well. The services of amateur committee-men may sometimes be dear at the lowest price; and to trade on loyalty to the extent of offering responsible managers and buyers a salary much less than they could command elsewhere may be poor economy in the end. It is tempting, too, to economise in stocking a shop by the simple process of eschewing variety and novelty of all kinds; and if the co-operative store succumbs to this temptation one of its main theoretical advantages—that if the consumer buys from himself he is certain to get exactly what he wants—is found to be somewhat illusory, and the restless housewife turns to the private shop or market where she can "look and pick." Change and choice and ingenious refinement are, as human nature is constituted, desirable things; and the private trader and the advertisement agent do more for their livelihood than the consumer suspects till he tries to do without them. For these and other reasons (including its praiseworthy attempts to insist on cash payments) the victory of the co-operative store movement has not been overwhelming, even among the working-classes; and it has left the more prosperous classes almost untouched.

In the domain of wholesale trade and of manufacture

the natural advantages of co-operative enterprise are less strong than in retail trading. The scrutiny of well-meaning amateurs becomes less valuable as the operations on which it is directed become more complex and remote; the dangers of unskilful buying, and of cramping the style of responsible managers, become more serious. Further, the relative smallness of the market makes it difficult to reap the full advantages of standardization. Nevertheless, in some countries considerable success has been attained, and the difficulties of government have not been found insuperable. The directorate of the English Wholesale Society, consisting of thirty-two full-time members (mostly ex-members of local committees of management), with its elaborate system of sub-committees and tours of inspection and reports, is generally believed to be a very efficient organ of a rather bureaucratic and secretive kind; for the control exercised over it by the committees, and still more by the ordinary members, of the constituent stores is necessarily of the slightest.

Consumers' Co-operation can no longer be called an experiment: in Great Britain at least it is a very well-tried and firmly established form of industrial organization. The goods sold by the retail societies reach one-third of the families in the country, and their value amounts to nearly one-twentieth of the whole national income, about one-half of them being supplied by the wholesale societies, and about one-third being actually manufactured in the movement's own productive departments. There seems no reason why Co-operation should not extend its triumphs within the wide but limited range of

industrial enterprise for which it is suited. For the supply of transport services, of goods for export, of intermediate goods such as machinery, of new and special and exciting products, the principle of Co-operation does not appear to be well adapted. An interesting suggestion is that it should be applied to the supply of news, thus enabling the consumer to escape from the frying-pan of the newspaper king without falling into the fire of a press owned and inspired by the Government of the day. In any case in the heterogeneous patchwork of "the existing system" Co-operation finds an assured place and a fair field, and has no need of such a fantastic suggestion as that of one modern reformer to the effect that the State should forcibly buy out the great private trading establishments and commit them to its care.[1]

What light does the success of Co-operation throw on the universal validity of the golden rule of Capitalism, associating the control of industry with the assumption of its risks? The answer is not very simple. In the first place, the element of trusteeship which we found in the administration of the joint-stock company is reinforced under Co-operation by the spirit of loyalty to a cause, so that its members are more than ordinarily ready to delegate their decision-taking powers to their servants, and those servants use them in the main carefully and faithfully, if sometimes with a little of the peremptoriness of the old family retainer. And, secondly, even the general powers of control reserved by the members are not exercised, as are those of the shareholders of a joint-stock company, in proportion to the resources risked;

[1] Cole, *Chaos and Order in Industry*, p. 195.

for the rule is one member one vote, irrespective of capital holding. But the disproportion between risk and control is not so great as at first sight appears. First, the capital is guaranteed a fixed rate of interest, like the debentures of a joint-stock company, so that the only risk run is that of complete loss, which is rendered extremely unlikely by the nature of the societies' activities. Moreover, reinvested "dividends" are withdrawable on demand, and share capital on cessation of membership. Secondly, all members have an equal interest in the disposal of the reserves, benevolent institutions, etc., built up by the societies, so that their total interests are not so mutually disproportionate as their capital holdings. Thirdly, the device of sale at full market price and a dividend on purchases means that members run important risks which are proportioned not to their capital holdings but to their purchases.[1] Thus while Co-operation has gone a step further than joint-stock enterprise in divorcing control from the ownership of capital, its native shrewdness has saved it from attempting too ambitious a divorce of control from risk.

In one respect this shrewdness has been carried to disappointing lengths. The relations of the co-operative societies with their workpeople are almost precisely similar to those of capitalist industry. The workpeople, whether in shop or factory, have no share in the management, and are not even as a rule individually eligible for election to the management committees. Profit-sharing,

[1] This is recognized in the constitution of the British Wholesales, where the constituent societies exercise voting-power in proportion to their purchases.

where it existed, has usually been abandoned; and while the societies are what is called "good employers," strikes have not been unknown. The building of the bridge between consumption and control has left the gulf between day-labour and control as wide as ever.

CHAPTER IX

COLLECTIVISM AND COMMUNISM

"Well, not the *next* day," the Knight repeated as before: "not the next *day*. In fact," he went on, holding his head down, and his voice getting lower and lower, "I don't believe that pudding ever *was* cooked! In fact, I don't believe that pudding ever *will* be cooked! And yet it was a very clever pudding to invent."

Through the Looking-glass.

§ 1. *Collectivism and Monopoly.* A generation since, to the majority both of its advocates and of its intelligent opponents, the term Socialism practically meant nothing more nor less than Collectivism (p. 105). That is no longer so, and we now scarcely need to be reminded that to many of its French and English pioneers of a century ago Socialism did not imply the ownership and operation of the means of production by the State. As a result, however, of the powerful influence of the founders of German Socialism, the capture for the State of the apparatus of industry came to seem to many people the sole and sufficient condition for social regeneration: and in this at least the continental followers of Marx and the more moderate English socialists of the later nineteenth century appeared to be at one. And though Socialism has now a wider purview, the public ownership

and exploitation of the means of production is still, both in project and in practice, an important form of industrial organization.

The controversy over the merits of Collectivism is a well-worn one, and not such as is likely to be laid to rest in ten pages of an academic text-book. But especially if we bear steadily in mind our analysis of the consumer's grievances against Capitalism, we may perhaps agree upon certain groups of cases in which the public ownership of industry is most desirable, or least reprehensible, according to our point of view.

The first group consists of those industries which under modern conditions tend, for one reason or another, to fall into the hands of a monopoly. Within this group it is customary to distinguish further between what we may perhaps be allowed to call "octopoid" industries and others. The octopoid industries—rail and tram transport, the supply of water, gas and electricity, the telegraph and telephone—are those involving the use of a large and widely ramifying plant, which it would clearly be wasteful and inconvenient to duplicate, and whose installation, since it involves interference with public or private property, calls in any case for some intervention on the part of the State. This distinction is useful within limits, but it must not be pressed too far. Monopoly, however arising, whether from octopoid characteristics or from the combination of large-scale producers or from exclusive access to certain natural resources, is liable to oppress the consumer, and invites the attention of the State.

That attention, however, does not of course necessarily take the form of public ownership. Without radical

alteration of the structure of capitalist industry, the State may attempt to deal with the problem of monopoly by exercising its powers of *negative* control in various ways whose detailed discussion lies outside the scope of this book, but which must be briefly mentioned here, since the strength of the case for Collectivism turns partly upon the question of the effectiveness of alternative methods of interference.

In the first place, then, the State may attempt directly to prevent the emergence of monopoly by prohibiting and punishing actions and arrangements which operate "in restraint of trade." This is the policy which has been pursued for thirty years in the United States, with results which are not encouraging: for it is a policy extremely difficult to carry into effect, and it has been found much easier to prevent monopolistic combination taking certain specified forms than to prevent it occurring altogether (Ch. VI, § 3). Further, monopoly is in the octopoid industries the only sensible method of supply, and in many others it brings economies in production, and improvements in the quality and stability of supply, of which it would be a back-handed kindness to deprive the consumer.

Secondly, the State may indirectly foster competition by prohibiting certain practices which are powerful weapons in the hands of aspirants to monopoly power, such as bringing pressure to bear on retailers to boycott their rivals' products, and ruining a weaker competitor by cutting prices to a level which could not and is not meant to be retained. In the United States such "unfair methods of competition" are declared illegal, and this seems a desirable policy to adopt: but it has

not been found easy to enforce, and it is not very likely of itself to preserve or reawaken competition in the face of a wealthy and well-established combination.

Thirdly, the State, while accepting the fact of monopoly, may attempt to protect the interests of the consumer by the prohibition of "unreasonable" prices, the fixing of "reasonable" prices, or the limitation of profits—methods each of which presents considerable difficulties, but one or other of which has perforce to be adopted in the case of "octopoid" industries, and may well be held in reserve as a last resort in the case of other industries as well.

Fourthly, the State may take the view that "light is the sovereign antiseptic and the best of all policemen," and claim special powers of investigation into the affairs of producers suspected of monopolistic action. Such powers must of course be possessed by any authority, such as the United States Federal Trade Commission or the British Railway Rates Tribunal, which has further powers of the more active kinds just mentioned: but they may also be accorded without carrying any further powers, as they were to the British Board of Trade under the Anti-profiteering Act from 1919 to 1921—a provision which it would seem highly desirable to restore in a permanent form, even if no more drastic steps are taken.

In estimating the strength of the arguments for Collectivism in monopolistic industries, the merits and limitations of these alternative devices must be taken into account as well as the intrinsic merits and limitations, to be considered presently, of the public conduct of industry.

§ 2. *Collectivism and Conservation, Security, and Social Progress.* Secondly, the argument for Collectivism is strengthened when there is a clash of interests not between producer and consumer, but between present and future consumers, occasioning the need for what is called in the United States a policy of "conservation." The State can, at any rate in theory, regard itself as immortal in a way in which a private person or even a joint-stock company can hardly be expected to do; and there is therefore a prima facie case for the collective exploitation both of those natural resources, such as coal and oil, which cannot be replaced at all, and of those, such as fisheries and forests, which cannot be kept intact except by a policy looking many years ahead.

There is here a curious paradox: States are notoriously bad savers, and spend riotously the savings of their subjects; yet when it is a question of saving not current income but the permanent sources of wealth, we credit them with a conscience which we do not individually possess, and turn to them because we have nowhere else to turn. It does not of course follow that such State enterprises cannot be conducted on an ordinary paying basis: but it does follow that the token of the State's success may be not, as in our first group of industries, an increase of output and a lowering of prices, but the very reverse. And in their early days, if the State's policy of working for the future is conscientiously pursued, such enterprises as afforestation may even involve an element of Communism—that is, a temporary subsidy to the selected industry at the expense of the general community. On the other hand, there are cases in which the State may be able to

eliminate types of waste which are benefiting nobody, not even the present consumer, and in such instances it may be able to increase immediate output without sacrificing those future interests which are the *raison d'être* of its intervention. Thus there is reason to think that in the British coal industry the practice of leaving unworked coal as barriers between adjacent mines, the difficulty of obtaining way-leaves for the transport of coal underground, the lack of co-operation in drainage, and other difficulties incidental to the mutiplicity of ownership of the mines, lead to a permanent loss of coal which injures both present and future generations. It is these considerations which furnish the main strength of the proposals for the nationalization of this industry: and since they can only be rendered obsolete by the establishment of partial or total monopoly, which even if it were held to remove the industry from our present group of "special cases" would establish it in our first, it seems pretty certain that that proposal will some day be seriously revived.

Thirdly, the argument for Collectivism is strengthened when the abandonment of an industry to private enterprise involves certain incidental political or social dangers. The strongest instances arise when the State is itself a large consumer, actual or potential, of the product supplied. Thus fighting is a trade, but the Norman kings made it plain many centuries ago that it is not a trade which individuals can be allowed to follow on their own account, except perhaps under National Sporting Club rules. Pacificist and militarist may shake hands on the proposition that it is not good for a country to depend on private enterprise for its

poison gas and its heavy guns. The Prussian Government developed its own railways, and the British Government set up in the canal business for strategic purposes; and the one is an owner of coal mines, the other of oil wells.

Again, a county or a municipality may run its own drink trade to make its inhabitants more sober, as the Government has done in Carlisle with great success; or its own slaughter-houses, to make them more healthy; or even its own theatres and opera houses, to make them more high-browed.

For the most part there is no reason why such enterprises should not be conducted on an ordinary paying basis, even if the State is in fact the chief consumer. But where (as in the case of the fighting services) the product has no market value except to the Government, or where for other reasons the economic aspect of the business is entirely subordinated to the political or social aspect, such enterprises involve the principle of Communism, and their further consideration must be deferred for the present.

§ 3. *Collectivism and the Assumption of Risk.* Some of the time-honoured arguments against the public operation of industry wear rather a faded air in the light of the proved success of the joint-stock company: for many of the features of the two forms of enterprise are the same. Both under modern conditions can hire the services of efficient managers, and the advantage in this respect rests perhaps with the public enterprise, since it can enlist in its employ a greater measure of the spirit of public service: for example, the integrity and

capacity of the bulk of the borough engineers who administer the English municipalized industries is beyond question. With regard to general supervision, however, as distinct from detailed management, the public enterprise is at a disadvantage. If the directing body is a committee of politically elected persons (as in municipal industry), it may suffer from lack not merely of expert knowledge, but of those general business qualifications which are usually, if not always, possessed by the directors of a company, as well as from an unwholesome fear of offending certain sections of its electors. If (as in nationalized industry) it is a Government department, its whole organization, personnel and procedure, its mechanism for controlling expenditure, its methods of appointment, promotion and dismissal, may be far less suitable for the conduct of business than of political administration, and impair the efficiency of management throughout.

As in the democratically owned joint-stock company, so in the public enterprise, there is a danger that the divorce of active control from the shouldering of the main risks will lead those who wield the former to be at once less rigorous in the avoidance of waste and more reluctant to adopt anything which might be represented as a rash or speculative policy than if they were working for their own hand. But the latter danger is greater in the case of public enterprises, for several reasons. Whether the capital employed in them has been accumulated by the public authority or (as is more usual) has been borrowed in the market at a fixed rate of interest, the risks of loss fall on the general tax-payer or rate-payer. Now in the first place these risks are greater

than those of an ordinary shareholder, for they are unlimited: if a company fails, its debenture holders can take over the property, but they can do no more; whereas if a public enterprise fails, the creditors of the public authority can still demand the interest on and repayment of their loans out of the proceeds of taxation. Secondly, these risks are borne by the taxpayers in accordance with their wealth, while each of them wields one vote only: thus there is a disharmony, more real than in the co-operative society, between the distribution of risk and the distribution of the residual powers of control. Thirdly, whatever view may be taken of the effectiveness of majority rule in expressing the general will, it must be admitted that there are many individuals who bear the risks of collective enterprise involuntarily, and are therefore critically disposed towards it. For all these reasons those in control of public enterprises rightly pursue more timid and unadventurous courses than even the directors of a joint-stock company. The infraction of the golden rule of capitalism brings its own penalty; and the device of compulsorily imposing unlimited risks on the tax-payer partially stultifies itself by restraining those responsible for policy from making full use of the risk-taking powers thus put into their hands.

For these reasons Collectivism does not seem well adapted to industries where difficulties of marketing, especially of marketing abroad, call for quick and bold decisions: and the difficulty of disentangling this side of the British coal trade from its purely productive side is one of the strongest objections to the nationalization of that industry. For the same reasons, Collectivism is generally admitted to have the best chance of success

in those industries in which the pioneer work has been already done by private enterprise, and the work of administration completely reduced to routine. It happens that these industries largely overlap with those octopoid industries in which the case for Collectivism is especially strong on other grounds; but the correspondence is not always so close as at first sight appears. Railway transport, for instance, is an octopoid industry; but though it is also an old industry whose routine administration is thoroughly well understood, the occurrence of a revolution in technique, such as the substitution of electricity for steam, may call for the exercise of precisely those qualities of initiative and bold judgment in which public enterprise is likely to be lacking. Further, the game of waiting till private enterprise has made a success of an industry and then taking it over is not one that can be played an indefinite number of times, since if it is known that this is the settled policy of the public authority, the inducements to private enterprise to undertake pioneer work are sensibly diminished. This is especially obvious if private enterprise is hampered by definite provisions for the surrender of its plant and working rights to the public authority at the end of a certain number of years, as occurred in the case of tramways and electric lighting in Great Britain.

§ 4. *Further Difficulties of Collectivism.* There are certain further dangers about public enterprise. Even if nominally conducted on a paying basis it is liable to involve an element of concealed Communism; for a public authority has at its disposal various devices for

rendering services at less than their full economic cost, such as charging against the general tax-payer expenditure which ought properly to be charged against some particular publicly operated industry. Again, even if a public enterprise starts on a paying basis, it is sometimes allowed to come frankly on to the taxes to save it from complete abandonment. Now the deliberate practice of Communism may, as we shall see presently, be a very good thing, and win general approval: but a resort to Communism in order to give a fictitious demonstration of the success of public enterprise, or to save the *amour-propre* of officials and avoid the resentment of discharged workmen, is obviously undesirable.

If the public authority is one of several competing producers, such "unfair competition" may make the position of its competitors untenable, and it may be obliged sooner or later to assume the sole duties of supply—an issue for which it may be totally unprepared. This is a fairly strong argument against public authorities engaging in competitive business except for some special object—for example, to bring an oppressive combine to its senses, or to set a standard of quality in some service, such as milk supply, in which private enterprise needs bringing up to the mark. It is, for instance, not surprising that the entry, as a result of the war, of the Governments of the United States, Australia and Canada into the shipping trade caused a good deal of ill-feeling and alarm.

Even, however, if the public authority is already in a position of monopoly, the disadvantages of maintaining a public enterprise on an uneconomic footing, except for good and deliberately chosen reasons, must not be over-

looked. The fact is that while Collectivism, by its device of the open-market loan coupled with the imposition of compulsory risk on the tax-payer, has solved after a fashion the problem of drawing resources in the directions indicated by rising demand, it does not provide any alternative to Capitalism's brutal solution of the correlative problem of repelling them from a demand that is falling away. When only a few industries are publicly operated, the matter is not very serious; but in a completely Collectivist State it might well become so. Such a State would not, like the Communist State to be discussed presently, be without any automatic register of the movements of demand, for it would (by definition) retain the expedients of sale and market-price; but it would probably find great difficulty in responding with alacrity to their movements. The pioneers of British Collectivism have admitted [1] that it might be forced to offer different wages in different occupations for work of the same difficulty and skill in order to promote the easy migration of labour—an arrangement which does not seem, from the point of view of abstract justice, a great improvement on "the existing system." It may, however, be fairly urged that a certain slowness in the adaptation of industry to changes in demand and technical method would not be too heavy in price to pay for a mitigation of the savage swiftness with which Capitalism hustles obsolescent skill and capital apparatus to the scrap-heap.

Another difficulty of Collectivism is that the most suitable unit for political government is often not the

[1] Mr. and Mrs. Webb, *A Constitution for the Socialist Commonwealth of Great Britain*, p. 297.

most suitable unit for the exercise of economic power; thus where the use of electricity is concerned, whether for lighting or for tramways, the municipality has been found a unit undesirably small. In other instances, however, notably railways and coal mining, Government enterprise might succeed in establishing a desirably large unit of working where the *vis inertiæ* of private enterprise has preserved an uneconomically small one. In any case this difficulty can be met by the establishment of a special body, composed of representatives of several ordinary public authorities, for the conduct of a particular industry over the area most suitable to it—a device well exemplified in the London Metropolitan Water Board.[1]

The device of the *ad hoc* board may also be used for solving or mitigating some of the more fundamental difficulties of Collectivism. So far as national as distinguished from municipal undertakings are concerned, the older notions of the meaning of Collectivism are generally out of fashion. Latter-day experiments in and proposals for nationalization generally involve the handing over of the control of the industry to a specially constituted expert body, more or less completely independent both of the Government of the day and of any existing Government Department, and working on the

[1] Mr. and Mrs. Webb have suggested (*op. cit.*, pp. 224 ff.) that the whole country should be divided up into a number of wards, or tiny cells of local government, each electing one full-time councillor: these councillors would sit together in smaller or larger numbers according to the public service to be administered. This plan would do away with the difficulty here under consideration, as well as with the present cumbrous multiplicity of local bodies, at the cost of sacrificing some of the expert knowledge at present acquired by the members of *ad hoc* boards and of specialized committees of county and borough councils.

lines of an ordinary business establishment rather than of a branch of the Civil Service. This is the plan which has been adopted in the United States and Canada for the operation of the State-owned merchant fleets. Proposals for nationalization of this kind frequently contemplate that this governing body should be in some way representative of those engaged in the industry, and we must therefore return to them when we have explored the second main avenue of social reconstruction (p. 101), that leading through the association of the worker with control of his own work. But it is obvious at once that a well thought-out scheme of this kind might go far to remove those objections to Collectivism which are based on the unsuitability of Government Departments or politically elected bodies for the business of conducting industry. It would not, however, remove the inherent difficulty of thoroughgoing Collectivism, that if the State is to be the supreme industrial authority, it must, even if it keeps itself as a rule discreetly in the background, assume the ultimate responsibility for regulating the flow of productive resources between different industries.

§ 5. *The Extent of Collectivism and quasi-Collectivist Arrangements.* Collectivism, like Co-operation, is now within its limits a well-established form of business organization. All national States own and operate their own postal systems, and most of them the whole or part of their railway systems and forest lands, as well as conducting directly a great number of industrial establishments incidental to the service of government. On the other hand, there are few instances outside

Russia of the State engaging in ordinary manufacture on a large scale, except sometimes, as in the case of the French tobacco industry, for the avowed purpose of raising a monopoly revenue in lieu of taxation. *Many municipalities* own and operate their own octopoid industries, and in Germany in particular have tried their hand successfully at a great variety of other enterprises. Even in England the products of municipal industry form a substantial proportion of the national income, and there is no reason to think that this form of enterprise has yet reached its limit; though it can scarcely be said, as it can of Co-operation, that it finds a perfectly open field within the structure of "the existing system," since Parliament exercises a strict control over the kinds of trading in which a municipality may engage, and the conditions with regard to the raising of loans, etc., on which it may engage in them.

But besides these instances of full-grown Collectivism, there are in existence a number of intermediate devices for giving the public authority an active share in the government and in the proceeds of industry without undertaking its full responsibilities. Thus it may construct and own its own railways or tramways, but lease them out for operation to private companies, retaining certain powers of control,—an arrangement which has worked satisfactorily in some instances, but is apt to break down, as it did on the Italian railways, owing to disputes about liability for capital improvements or similar causes. Again, the State may hold a sufficient number of shares in an ordinary joint-stock company to exercise, if necessary, a decisive influence

in matters of policy without saddling itself with the detailed conduct of the business. This is the policy which was adopted by the Mexican Government with regard to railways, and by the British Government with regard to dye works and oil fields.

Finally, there are a few cases of great importance in which the State has set up a body directly representing its own interests and endowed it with very great positive powers of government over a number of undertakings which are left in other respects to the ownership and operation of private enterprise. Such are the Federal Reserve Board (1913) and the Interstate Commerce Commission (reconstituted 1920) in the United States, bodies consisting respectively of seven and eleven members appointed by the Government, and neither representative of nor financially interested in the vast assemblage of private banking and railway companies grouped beneath their respective sways. Yet the former directs in effect the whole banking policy of the United States: while the latter is entrusted with powers not only of fixing rates, but of consolidating the railway companies into groups, regulating their issues of shares and prescribing their allowances for depreciation, ordering them to construct new lines, controlling their traffic in times of emergency, and administering in the general interest part of their (at present hypothetical) surplus profits—provisions which have been partially imitated in the recent Act (1921) defining the status of the British railway companies. Thus the home of free enterprise has furnished us with experiments in positive State control on a scale which finds no parallel outside Communist Russia.

Such arrangements on the face of them seriously infringe the golden rule of Capitalism.[1] The practical good sense of Anglo-Saxondom has so far enabled them to operate without serious friction, but it is perhaps too early to judge whether they represent a stable form of business organization, or whether the State, having assumed such gigantic powers of control, will not ultimately have to assume also the risks of ownership.

§ 6. *Communism.* Much that has been said of Collectivism applies to Communism as well, but the latter raises also some fresh issues. Let us analyse the reasons for which Society may decide to make a partial application of the principles of Communism—that is, to supply its members with certain services either free of charge or at less than their full cost. First, the public authority may be providing on general grounds some service for which the exaction of specific payment in accordance with the quantity consumed would be impossible (how much of a battleship's services do I consume?) or inconvenient (toll-gates on roads are an intolerable nuisance) or unjust (it is not those whose pockets are picked who derive most benefit from the vigilance of the police), and the service must therefore be rendered gratis. Secondly, since people do not always know what is good for them, the price which they will offer

[1] Though not always so seriously as would appear. Thus the decisions of the Federal Reserve Board have reference rather to those risks which fall inevitably on the general public in the shape of price-fluctuations, financial panics, etc., than to those, such as the insolvency of particular creditors, which fall mainly on the individual bank itself.

for a thing (such as a cesspool or a good look at a Diplodocus) is not always a measure of their real need for it as compared with their need for other things; and since private enterprise cannot be expected to take this into account, their real enjoyment of life is less than it ought to be. If such errors injured only those who made them, a society which set a high value on liberty might not be prepared to go very far in setting them right; but, in fact—and this is the third point—they frequently injure other people also; thus the neglect of a man to provide his house with drains may damage his neighbours as well as himself. Even in a society in which wealth was equally distributed, it could be argued that for one or more of these reasons people ought to have sanitation and soldiers and parks and policemen and libraries and a minimum standard of education for their children thrust down their throats, or at any rate dangled in front of their noses, without the exaction of full payment; the cost of course being defrayed out of taxation.

But in society as we know it there is a further point. Owing to the unequal distribution of wealth, the comparative prices offered for different goods by different people may fail entirely to indicate the comparative real urgency of the needs which those goods satisfy; and since, under any modern system of taxation, more is taken in taxes from the rich than from the poor, the machinery of public finance and collective enterprise offers an opportunity of partially correcting this defect. It would be possible, of course, simply to take money from the rich by taxation and hand it over to the poor, and in certain cases this is done; but on the whole

the money is less likely to be wasted or to have a demoralizing effect if it is spent in providing for the poor, free or at less than full cost, services which otherwise many of them would refrain from demanding, with results especially damaging both to themselves and to other people. Thus the arguments for a partial application of the principle of Communism are strongly reinforced.

On the other hand, there are good grounds for walking carefully. There are, first, the general objections to Collectivism already discussed. It is true that the Communistic principle can be applied not only through Collectivism, but through a policy of subsidies to private enterprise—for instance, it is happily possible for the Government to endow the University of Cambridge without making it a State concern; but on the whole this alternative is not likely to be carried very far in ordinary times. Secondly, high taxation for the maintenance of Communist undertakings discourages enterprise and the accumulation of wealth. Thirdly, there is a chronic danger of the Communistic principle being misapplied. There is, for instance, no special reason for supposing that people's expenditure on travelling by tram is less than it ought to be in comparison with their expenditure on other things, and no particular justification therefore for running a municipal tramway system at a loss; yet this sort of thing is very liable to occur.

The merits and dangers of partial Communism are well exemplified in the policy of State provision of housing for the working classes. Here is a service of which the consumers are poor, and in the purchase of

which they are peculiarly apt to neglect their own interests, to the prejudice of themselves, of their neighbours and of posterity (for a jerry-built house, unlike a jerry-built pair of boots, is an incubus on succeeding generations): thus the arguments for Communistic enterprise are very strong. On the other hand, a Communistic policy to be successful must be very comprehensive, for the competition of tax-fed Government building will make private enterprise impossible; and a comprehensive policy will be enormously expensive. It is not surprising that in Great Britain the result of these conflicting considerations has been vacillation and confusion.

A system of complete Communism implies, of course, a complete rejection of the mechanism of price and exchange. In an infinitely wealthy society everybody would no doubt be allowed to take out of the State's storehouses as much of everything as he wanted; but in a society of limited wealth, such as those we know on earth, the State would have to ration the consumption of individuals in every particular, and to arrange the flow of productive resources into the several industries in such a manner as to produce continuously the standard budget for the whole population,—a budget which many individuals would certainly find inappropriate and distasteful. It appears to have been nothing less than this gigantic task which was envisaged by the Communist Government of Russia in its "orthodox" period, though the vision was never completely translated into actuality. But it seems evident that in the strict sense Russia is Communist no longer. even in theory, and is settling

down instead to a regime of highly centralized Collectivism, conducted according to the ordinary methods of accountancy, in the leading industries—textiles, transport, iron and steel and so forth—coupled with small-scale private enterprise in agriculture, and more or less strictly regulated Capitalism in the other departments of economic life. The Russian experiment involved so many different kinds of change and was conducted under such peculiar conditions that it is dangerous to draw detailed inferences from it on particular points: but it certainly suggests that even among a population with simple and uniform needs the wholesale administration of industry by the State, difficult enough in any case, becomes an impossible task if the touchstone of price in relation to cost of production is cast to the winds.

CHAPTER X

WORKERS' CONTROL

"I'll tell you how I came to think of it," said the Knight. "You see, I said to myself, 'The only difficulty is with the feet: the *head* is high enough already.' Now, first I put my head on the top of the gate—then the head's high enough—then I stand on my head—then the feet are high enough, you see—then I'm over, you see."

"Yes, I suppose you'd be over when that was done," Alice said thoughtfully; "but don't you think it would be rather hard?"

"I haven't tried it yet," the Knight said gravely: "so I can't tell for certain—but I'm afraid it *would* be a little hard."

Through the Looking-glass.

§1. *Productive Co-operation.* Neither Consumers' Co-operation nor Collectivism nor Communism solves the problem of the status of the worker raised in Chapter VII, §4: and since all of them must, under modern conditions, work within the framework of the "factory system"—of Capitalism considered as a technical method of production and not as a system of property rights and industrial government—the fact is not surprising. Dreamers of dreams have, indeed, suggested from time to time that we should scrap the factory and the machine, and become again a community of independent

craftsmen. Readers of Samuel Butler's *Erewhon* will remember how that imaginary nation, alarmed at the growing wisdom and power and voracity of the machines, finally decided to destroy all those which had been invented in the last 271 years, "a period which was agreed upon by all parties after several years of wrangling as to whether a certain kind of mangle which was much in use among washerwomen should be saved or no. It was at last ruled to be dangerous, and was just excluded by the limit of 271 years." But the common sense of mankind outside Erewhon has generally decided that this course is impracticable; and the efforts of reformers have been directed to trying to find some method of combining the subordination and regimentation necessitated by the factory system with the exercise of self-government by those who are entangled in its coils.

It was on this aspect of social reconstruction that the early French and English Socialists laid most stress, and the 'twenties and 'thirties were prolific in schemes for self-governing workshops and communities. Then in most countries these rather fragile projects were submerged beneath the rising tide of Collectivism, to reappear in the twentieth century, and especially in the great social upheaval of 1917–20, in a more militant and imposing form. Of late years the consumer has become suspect, for he may be a mere drone, living on rent and profits, and so not entitled to consideration: the State has become suspect, for it is a tyrannous organ that makes wars and brews lies and destroys freedom. It is the worker *qua* worker who must rule.

In following out the development of this line of

thought and experiment we must glance first at the humble relics of the co-operative enthusiasm of the 'thirties. Most of those early "workers' societies" were short-lived, but there have been occasional revivals of the movement, and there are in Great Britain at present about seventy such establishments—mainly in the boot, clothing, textile and printing trades—at any rate partially owned and directed by those who work in them. But the genuine productive society has obvious difficulties to face. There is difficulty in obtaining enough capital for extensions of business or even for current needs, and in securing and retaining markets. But the greatest difficulty is the question of management: it is not easy to bring oneself to vote for the most capable man among one's shopmates as manager, rather than the best talker or the best fellow, nor to vote him a large enough salary, nor to allow him a free enough hand when elected and to obey his orders in the shop. Hence not many of these societies have remained true to the early ideals of the movement. In many of them a large part of the membership and the capital holding lies outside the factory (sometimes partly in the hands of the Co-operative Stores), and within the factory there are many employees who are not members of the society; and in only about a third of them do employees constitute a majority on the managing committees, while in some they are definitely excluded from sitting thereon.

Thus "Productive Co-operation" has not revolutionized industry, nor is it likely to do so. The main stream, not only of Capitalism, but of Co-operation and of Socialism, has swept past these gallant little craft;

but in their limited sphere they have a vitality and an experimental value of their own.

§ 2. *Syndicalism and Sovietism.* It seems a far cry from these peaceful little cells of industry to the red flag and the barricades: yet in its original form the doctrine of Syndicalism, which a few years before the war began to terrify the country houses of England and to make Socialism sound respectable by comparison, appears to have been directly derived from the French counterparts of the workers' society. France is still in the main, by comparison with England and Germany, a country of small-scale and decentralized industry; and the great national trade unions, now familiar in England for three-quarters of a century, were slow in making their appearance. The original idea of Syndicalism was that in each locality the association of workmen in each trade should take over the control of the means of production; but the general good—or at least the general good of the working class—was not to be altogether neglected, for the local Bourse du Travail—a sort of common council or clearing house of the local trade unions, corresponding roughly to the English Trades Council—was to exercise a kind of general control, and adjudge between the claims of the various trade associations, where these came into conflict.

But with the turn of the century came at last the growth of the great national trade unions, which adopted the doctrines of Syndicalism; and on the national scale, the State being suspect, there was no body in sight to exercise even that limited protection

of the consumer's interest which had been entrusted in imagination to the Bourse du Travail. Hence it does not seem unjust to say that Syndicalism, in the form in which it became articulate to the world at large, advocated the reorganization of industry purely from the standpoint of the producer, and contemplated the erection of a number of vast and independent Workmen's Trusts in place of the mingled competition, combination and collectivism of "the existing system." "The mines for the miners, the railways for the railwaymen—and the dust carts for the dustmen," such is the common criticism of the implications of Syndicalist doctrine, and it does not seem an unfair one; though no doubt in the minds of its advocates that doctrine was mingled with a vague kind of Communism which reduced the question of ownership to unimportance. But, indeed, it is difficult to analyse correctly a doctrine which has never been put into practice, and has not been expounded with very great lucidity; for it is part of the theory of Syndicalism that the proletariat must not bother too much about the consequences of its own actions or the form of government which will eventually result from them, but act at all costs. And it is not surprising that it should be this part of the theory, with its corollary of the general strike, that chiefly captured the attention of the public.

When, under the dissolving influence of the Great War, revolution swept over Russia and Germany, and flared up in the streets of Milan and Turin, and simmered on the Clyde, it was ideas akin to those of French Syndicalism in its earlier or local phase that first found embodiment in propaganda and in action. For the

modern revolutionary, another name must be added to those of the Consumer and the State on the list of suspects—the name of the great national Trade Union itself, so long the bulwark of the working class, but now fit only for the guillotine—a monster slow in action, bureaucratic in method, an accomplice too often in the dark deeds of the State. Not the association of workers in each trade or even in each locality, but the workers themselves in each works, must seize from the capitalist the instruments of production which they themselves operate. Union no doubt will come later—the solidarity of the working class will not be impaired; but it must be a solidarity built up from below by the free federation of self-governing groups, not imposed from above by any authority whatsoever. Such seems to have been the gospel of the Soviet or Workers' Council, as blazoned forth in the early days of revolution.

It is a melancholy task to trace in each country the evaporation or contamination of the pure milk of the Soviet word as revolution either succumbs to the forces of reaction or settles down and becomes respectable. In Russia the powers of the factory soviet seem to have been conditioned from the first by the existence of the local soviet, organized on a territorial and not on an industrial basis, and to have been exercised even so with such a reckless disregard for the common weal that so soon as the central government could get to work other elements were speedily introduced into the directive body of each individual factory, while the factories themselves were brought within the fold of a highly centralized system. The real powers of

appointment and administration were gathered up into the hands of Moscow, while the formation of a centralized trade union for each industry constituted a further check on the independence of individual groups of workers.

The Bolshevik organization of industry presents, on paper at least, a picture of bewildering complexity. At the head of each trade there was instituted a powerful directive body or "Central," beneath it came a ring of local Trusts, and beneath them again the individual factories. Each factory was provided with two directors appointed by the Central, one for technical the other for administrative purposes, the latter being assisted by an administrative council, nominally—but apparently not in reality—composed of representatives of the workmen and clerical staffs, the higher technical and commercial staffs, the trade union of the industry concerned, the local council of trade unions, the regional economic council, the local soviet, the local peasants' soviet and the local co-operative society. Each factory had also its committee of workers only, with rights of appeal against the technical director. A rather complicated form of factory government, this, and one not easy to bring within the framework of any cut-and-dried analysis: but there is the less reason for the reader to tear his hair over it in that the author is in no position to explain how it, and the analogous complexities in the constitution of the Central and the Local Trusts, worked out in practice. One thing only is plain, that under the pressure of war and want, centralized autonomy speedily pruned and curbed the efflorescence of the self-governing factory.

In Germany, as the dreams of a Soviet Republic faded away in 1919 beneath the heel of the Bourgeois—Socialist Coalition, the works councils, after several stirring bids for power, shrank away into appendages of capitalist and cartellized industry. In Italy, the dramatic capture of the metal factories by their employees in the autumn of 1920 ended in the restoration of capitalism, and the accord by statute of limited powers of inspection and inquiry to central committees representing the workers in each trade. In Great Britain the shop committee, with its member the shop steward, has been absorbed fairly digestibly into the main structure of the Trade Union movement.

§ 3. *Guild Socialism.* But the idea of self-government in industry has not perished. Blended with various elements both of Capitalism and of old-fashioned Trade Unionism, it survives in certain notable projects and experiments which, if disillusionment and trade depression have thrust them temporarily into the background, are not to be permanently ignored. Let us consider, first, those that are clean of compromise with Capitalism, reserving for a final chapter the attempts which have been made to engraft the principles of self-government on to the trunk of capitalist industry.

In England, the idea of workers' control has been much bound up with a cult, not always very intelligent or well-grounded in historical knowledge, of the mediæval craft guild. Now the mediæval craft guild was a product of the handicraft system in its third or highly-developed town period (p. 9): it was an

association of independent master-craftsmen in each trade, each working at small-scale industry on his own account, but uniting to regulate certain matters, connected chiefly with the quality and methods of work, which were of interest to the trade as a whole. Its modern analogy, therefore, is to be found rather in such loose associations of independent employers as the National Federation of Iron and Steel Manufacturers than in the trade union: and the manner of its working throws little direct light on the problem of achieving self-government for the workman in large-scale regimented industry. The relevance of the mediæval guild to modern problems lies rather in the general notion of a body which is not an organ of State, but is yet charged by general consent with the execution of public duties and the regulation of an industrial service; and also, be it said, in the warning that the arrogance and exclusiveness of such bodies may throttle the development of industry and lead to their own disruption and decay. But so long as false historical analogies are avoided, we need not quarrel with the name which the Guild Socialists have given to their theory of industrial reconstruction.

That theory, naturally enough, is not expounded alike by all its advocates, but it will not be profitable to probe here too deeply into their domestic controversies. The main idea is that each industry should be reconstituted as a public service, under the control of those who actually work in it, whether with hand or brain. Thus Guild Socialism seeks to avoid the dangers of bureaucratic and ignorant administration

associated with ordinary Collectivism; and it seeks also to avoid the cruder defects of Syndicalism by vesting the final rights of ownership of each industry in the State, by recognizing the claims of brain labour, and by setting in the forefront of its programme the idea of the service of the consumer.

How far this profession of disinterestedness is a sufficient guarantee of the consumer's interest is a subject of controversy, revealed in the diversity exhibited by concrete Guild Socialist and quasi-Guild Socialist proposals in the matter of the representation of the consumer and the State in the government of industry. Thus the miners' own scheme for the nationalization of the British coal mines provided for a governing body of which half the members were to be appointed by the Miners' Federation, and the other half, while appointed by the State, were to represent only the technical and administrative sides of the industry itself. Mr. Justice Sankey's famous rejected proposals (1919) for the same industry placed the chief power in the hands of District Councils, of which four members were to be elected by the workers and eight appointed by a superior National Council—four to represent the technical and commercial sides of the industry, and four to represent the great coal-consuming industries and the consuming public; while the Chairman and Vice-Chairman were to be appointed directly by the State. The abortive "Plumb plan" for the reorganization of the American railways contemplated a directorate composed of five representatives of the workers, five of the managing staff, and five of the State. A similar variety in proposals for the fixing

of prices and the disposal of surpluses indicates the inevitable difficulties of harmonising the interests of the various partners in the exploitation of industry by Guild Socialist methods.

An ounce of experience is said to be worth a ton of theory, and we must therefore glance briefly at the one important experiment in Guild Socialist organization which has been actually made. In 1920 the building operatives of Manchester and London took the lead in the formation of guild committees to undertake contracts with the local authorities for the building of working-class houses, and the movement spread rapidly in other parts of the country. In its final shape the organization was roughly as follows. The National Building Guild was for legal purposes in form, but in form only, a joint-stock company, and undertook certain centralized work of finance, insurance and supply: but the making of contracts was in the hands of Regional Councils, which were elected partly by the craft organizations of the region (including professional organizations of architects, engineers and clerks), and partly by the local guild committees. These local committees were elected by the building trade unions in each small area, and were responsible for the supply of labour on building contracts undertaken in that area. Each regional council appointed a manager and head-quarters staff, while the foreman on each job was appointed by the local committee, and was thus not directly responsible to or removable by the particular workmen to whom he gave orders. Capital was borrowed at a fixed rate of interest, and full trade union rates of wages were paid during the currency of the contract, in

sickness and in health, in good weather and in bad. Surpluses were to be used for various kinds of improvement and development, and in no case distributed to individuals.

Thanks to the inspiration of the Guild idea and the legitimate attractions of the device of continuous pay, a high standard of efficiency and quality of work was apparently for a time attained. The experiment, indeed, was born under peculiarly favourable conditions. Building is a trade which requires little fixed capital, and the Co-operative movement gave valuable assistance in the supply of materials and in guaranteeing the fulfilment of contracts; while the urgent and tax-fed Government demand for houses provided a most favourable market. But trade depression and the curtailment of the housing programme, combined with serious faults of internal administration, led in the end to complete and ignominious failure. It has yet to be proved that Guild enterprise of this kind can find an assured place in the mosaic of "the existing system."

If, moreover, the whole of any industry should come to be reorganized on Guild lines, the problems suggested by the golden rule of Capitalism would assuredly become pressing. Would capital be forthcoming on such a scale unless those who ventured it were allowed some share in controlling its use? Under Capitalism, the debenture holder is content to forego rights of control because his debentures are, as it were, covered under a fat layer of ordinary shares, and it is not till every ordinary share has become worthless that he runs any risk of capital

loss. Under Co-operation, the shareholder has at any rate a voice, even if its loudness is not proportionate to the size of his holding. Under Collectivism, the bottomless pocket of the tax-payer stands between the creditor of the State and disaster. But to finance a whole industry with blindfolded and impotent capital is likely to prove a stiff proposition; for unless such capital is to be secured, both against total loss and against fluctuating returns, it is likely to be shy in coming forward, and if it *is* to be so secured, its maintenance might well become an intolerable burden on an industry exposed like any other to the fluctuations and uncertainties of trade. And the difficulty is increased by the fact that the transference of control to the workers is to be accompanied by a marked diminution of their individual risks: for it is the hope of Guild Socialism so to extend the system of "continuous pay" as to guarantee a livelihood to every man on the strength of an industry, irrespective of whether there is work for him to do or no. Moreover, in such an eventuality the question of price and output and the rights of the consumer, solved in the building trade experiment by the formidable competition of private enterprise, would become acute. A country whose industry was entirely conducted by Guilds would still have to solve the root problems of Collectivism—the problems of reconciling a diversity of vested rights and of promoting the ebb and flow of productive resources between different occupations. The Guild system does not seem to furnish a short cut to economic salvation: but where a policy of Collectivism

is adopted on other grounds, it seems desirable that the Collectivized industry should be managed in accordance with some, at least, of the ideals and methods which Guild Socialism propounds.

CHAPTER XI

JOINT CONTROL

The Dodo suddenly called out, "The race is over!" and they all crowded round it, panting, and asking "But who has won?"

This question the Dodo could not answer without a great deal of thought, and it sat for a long time with one finger pressed upon its forehead (the position in which you usually see Shakespeare in the pictures of him), while the rest waited in silence. At last the Dodo said, "*Everybody* has won, and all must have prizes."

Alice's Adventures in Wonderland.

§ 1. *The Case for Joint Control.* For the diehards of industrial reconstruction, the transfer of governing powers to the workers must be absolute and complete, or it is illusory and useless. If this consummation is not at present in sight, working-class effort must continue along the well-established lines of negative or inhibitory control, while preparing itself, by organization and education, for the assumption of positive powers of government at some future date. Any proposals for association with the forces of Capitalism in the conduct of industry must be rejected as a trap. There must of course be joint machinery for the settlement of disputes, but "joint machinery, whatever its character, has

nothing to do with the working-class demand for control."

Many members of the employing class, actuated by other considerations, arrive in practice at the same conclusion. In England at any rate Trade Unionism is generally accepted, by some grudgingly as a necessary evil, by others with a genuine appreciation of its generally beneficial effects on character and of the superiority of intelligent and organized opposition over incoherent and subterranean revolt. Its attempts to maintain and improve the standard of life of the working classes, while they may be strenuously resisted in detail, are not resented in gross. But such attempts are held to mark the limit of its functions, and no working-class ambitions or aspirations are to be allowed to interfere with the liberty of the employer to "carry on his own business in his own way."

To many outside enquirers also, detached from the practical conduct of industry, there is much that is attractive about this point of view. It seems to them simple and familiar and well grounded in the experience of the past. They are impressed with the difficulty of severing the government of industry from the assumption of its risks, and with the strength of the argument for leaving the control over the use of resources in the hands of those who provide and venture them, or of their appointed representatives. Their casual acquaintance with the working class leads them to doubt whether the average workman is in fact actuated by any passionate impulse to sit on committees and take decisions, and not rather by a desire to be let alone in the enjoyment of such comfort and leisure as can be

procured for him. In the enforcement of standard wages and conditions of employment, and in the prevention of oppression of individuals, they see ample scope for the exercise of all the statesmanship that Trade Unionism is likely to be able to command. Now that the flames of revolution have died down and the visions of the New Jerusalem receded, cannot we have done, they ask, with this cant about Workers' Control, and set the old horse Industry on the road again in the old way, with Capital in the saddle, and Labour barking when necessary at his heels?

Yet this philosophy of industrial relations seems to leave certain matters out of account. In the first place history seems to show that strength without responsibility is always liable to be recklessly used. Now nothing can prevent the organized working-class from possessing strength—a strength whose magnitude will vary with the state of trade and other conditions, but which can never again be totally destroyed. If this strength is to be exercised always in Opposition, the temptations to use it heedlessly will always be great and on occasions irresistible; if it can be associated in any way with responsibility for the actual conduct of affairs, it is likely to be more moderately and thoughtfully employed. This profound platitude is the burden of the famous Report [1] which laid the foundations of self-government in the British dominions. In Canada before 1838 there were in existence powerful popular assemblies with considerable facilities for irresponsible criticism and obstruction, while the initiation and execution of policy lay in the hands of a governor

[1] Lord Durham, *Report on the State of Canada*, 1838.

appointed from England: and the result was chronic conflict and confusion, till the deadlock was solved by making the popular assembly responsible for providing a ministry to conduct the government of the country. The analogy between political and industrial affairs must not be pressed too hard, but it is close enough to give occasion for reflection.

Secondly, even if the powers of negative control are employed for reasonable ends, they are often an expensive and roundabout method of attaining objects which might on the face of it be attained more speedily and cheaply by direct means. The liberty of the employer to "conduct his own business in his own way" is very far from being absolute as things are at present. By obstruction culminating in sabotage and strikes, a body of workmen can, in favourable circumstances, ensure that they shall not be obliged to work under such and such conditions, or with such and such workmates, or *without* such and such a workmate (there have been many successful strikes against victimization and arbitrary dismissals), or even under such and such managers and foremen. Thus much effort is spent in making decisions unworkable which might, it would seem, be saved if those who are driven to make it had been partners to the decision in the first instance. Here again analogies are suggestive, if inconclusive. Bodies which are set up to prohibit "unreasonable" prices are generally driven in the end to save time and litigation by prescribing "reasonable" ones: and the method sometimes employed by benevolent rustics of directing the traveller by indicating exhaustively the roads which he must *not* take, wastes time and breath.

Thirdly, whatever may be true of the "average workman," there is little doubt that at present much constructive talent among the working class is allowed to go to waste. It is true that many men have risen from that class to attain responsible positions in industry; but others have found no such opportunity, and others again would scorn it if it arose, preferring to use their abilities in the service of their own class. At present, the service of industry and the service of their own class are disconnected and even conflicting ideals. Need they be?

Fourthly, even the psychology of the "average workman" is perhaps not so simple as some would have us believe. It may be hazarded that in his scale of values two other things besides reasonable comfort and leisure find a high place—a sense of security and a sense that he is not being done by somebody in the eye. Political analogy suggests that these sensations are not easily generated except through the machinery of self-government. If the desire to take an active part in affairs is confined to a small minority, the desire to be a *member* of something, with a status and a place in the sun, is surely much deeper and more widely spread; and, even those to whom committees are a form of slow torture, like to cast, or to feel that if deeply stirred they have the right to cast, an occasional vote.

For these reasons those who see no alternative to preserving in its broad outline the framework of "the existing system" may be wise to consider sympathetically proposals for associating the worker in some way with the government of industry. And those who

desire to destroy it altogether may well consider whether half a loaf is not better than no bread.

§ 2. *Joint Control in Individual Firms.* One obvious device at once suggests itself—that the workers in any concern should receive special encouragement to acquire a share in its ownership and therefore in its control.[1] Here are the particulars of two celebrated instances of this expedient of "Labour Co-partnership." In the South Metropolitan Gas Company of London, the employees receive a share of the profits in the form of a bonus on their wages, part of which has to be invested in the stock of the company, with the result that they now hold nearly 6 per cent of the voting power. This, however, does not measure the full extent of their influence, for the workmen are entitled to elect two and the office staff one, out of the ten directors; and further, the joint committee which administers the co-partnership scheme exercises also an informal but real influence in the internal government of the works. In the Leclaire house-painting establishment in Paris, about five-eighths of the capital is now owned by a Mutual Aid Society to which about one-sixth of the workers belong, and which is a sleeping partner (p. 64) in the firm; while the two active managing partners, who own the rest of the capital, are elected for life by a kind of senate nearly coextensive with the Mutual

[1] The financial obstacles to the workmen acquiring the ownership of a business are not so great as is often imagined. The saving of a very few hundred pounds per head would enable the employees of (say) an integrated coal and iron and steel company to purchase the whole of its ordinary shares. But such a development is extremely unlikely to occur except as the result of a deliberate scheme.

Aid Society, which fills up vacancies in its own ranks and which possesses certain powers of government, such as the appointment of foremen. Examples could be multiplied, differing indefinitely in detail; but they all have this in common, that they owe their origin to the energy and vision of a successful man of business. And in consequence, even when the co-partnership scheme is of so advanced a kind that the result bears a strong resemblance to "productive co-operation" (Ch. X, § 1), the executive powers of the management are generally very carefully safeguarded.[1]

But it is also possible that the workers should be associated *qua* workers, and not *qua* owners of capital, in the government of the business in which they work. Thus the workmen in a joint-stock company may acquire the right to nominate one or more members of the board of directors, without regard to their share, if any, in the ownership of the capital. This plan was suggested by the British Government in 1919 for adoption on the railways, but was fiercely opposed by the directors of the railway companies, and apparently not strongly pressed by the Trade Unions; and except in connection with co-partnership schemes, the specifically

[1] An interesting and anomalous industrial constitution is that of the famous Zeiss optical glass works at Jena. Under the disposition of the late proprietor, Ernst Abbe, the bulk of the capital is owned under a Trust deed by the establishment itself. The trustee is a Government department, the consent of whose representative is required to important decisions: subject to this, the control is in the hands of a co-opted Board of Management of four, though there is also a council of workmen with the right to make representations. The self-contained nature of this organization, and some of its provisions for continuous pay, etc., recall the Guild ideal: the difference seems to be in the frank recognition of the rights of *ownership* possessed by the employees, who participate individually in the profits.

elected employee-director appears to be in England non-existent, though of course in some companies (such as Lever Brothers) many of the directors are ex-employees. In Germany, under an Act of 1922, one or two members of the Works Council are entitled to seats with full voting rights on the board of supervision of joint-stock companies and other corporate organizations (a body with rather less executive power than the English board of directors); but it seems evident that this provision has not been very effective, since it tends to be evaded by the transaction of really important business elsewhere than at formal meetings of the board.

Of more immediate interest is the movement for the transference to a council or committee of workers of a share in the government of the business in which they are employed. Isolated instances of this development have long been familiar; but it received, in theory at any rate, a great stimulus from the outburst of the demand for pure "workers' control" during the revolutionary period, 1917–20. In Germany the Workers' Councils which failed to achieve the social revolution (p. 141) remain established by the Constitution (1919) and by specific statute (1920) as an integral part of the organization of industry. In England the general establishment of joint works' committees, representing employer and employed, was recommended by the famous Whitley report (1917), with results which have so far been disappointing both in quantity and quality.

Whether we consider achieved facts or probable future developments, we are here on the threshold of

a thorny and intricate subject, which can only be dealt with in this book in the most summary fashion.[1] There is an almost infinite gradation both in the matters to which the competence of such bodies may extend, and in the degree of influence which they may exercise. Are they to be concerned merely with the administration of bonus, pension and welfare schemes, and with minor matters of workshop comfort and hygiene, or are their powers to reach to matters of discipline and organization, of productive method and technique, of commercial and financial policy? Again, are their activities to take the form merely of criticism and protest, or of giving advice when called into consultation, or of suggesting and advising on their own initiative, or finally of actually taking part in executive decisions? The line between positive and negative control is indefinite and blurred; the teaching of past experiment is difficult to summarise and interpret, and the course of future experiment impossible to forecast. Two general reflections must suffice. First, the control which can be exercised by such bodies over commercial and financial policy is almost purely negative: but it is not therefore to be altogether despised. It was perhaps a profound political instinct which led the wary old Italian premier, Signor Giolitti, in his settlement of the Italian factory war (p. 141), to interpret the word "controllo" in the rather unexpected sense of "powers of financial enquiry." There is no question that the secrecy of private enterprise, the suspicion that large

[1] The reader should consult Goodrich, *The Frontier of Control* (1920), and Guillebaud, *Works' Councils in Germany* (1928).

profits are being made, the sense that the worker is being "got at," are among the root causes of "industrial unrest." In England the whole financial position of a huge privately owned industry, that of coal mining, is now exposed to the workmen month by month in connection with the scheme of wage payments; but such arrangements are still unhappily rare. The statutory powers of investigation possessed by the German Works Councils, or even the administration by a committee of a mere profit-sharing scheme, may have the enormous advantage both of impelling the employer to lay his cards continuously on the table and of inducing the workmen to subject them to intelligent scrutiny.

Secondly, the real crux of the question of positive control lies in two groups of questions—those connected with (*a*) discipline and (*b*) technique. (*a*) Successful experiments have been made in the devolution to works committees of minor disciplinary powers with regard to timekeeping and similar matters, though mainly under war-time conditions and with the fear of worse alternatives in the background. More important is the question of control over the "right to sack." The German Works Councils can hear appeals against dismissal for other than trade reasons, the final court of reference being a district conciliation committee; but in any case only the payment of compensation, and not reinstatement, can be enforced. One branch of the British Commission on Industrial Unrest (1917) went so far as to recommend that "no workman should be liable to be dismissed without the consent of his fellow-workmen as well as his employer"; but

this remains for the most part a pious aspiration, and it would seem that in any case a distinction must be drawn between dismissals on grounds of the state of trade or a man's industrial efficiency, and dismissals made on disciplinary grounds or actuated by disapproval of a man's personal conduct. In times of trade depression and unemployment this distinction is peculiarly difficult to establish; but the sharing of control over dismissals seems an obvious line of advance for more prosperous times. Control over the appointment and behaviour of foremen remains purely negative, and the care with which in Guild and similar experiments the election of officials by their immediate subordinates is avoided suggests that it is likely to remain so: though Messrs. Rowntrees' device of preliminary discussion of appointments by a committee of workers without executive powers seems worthy of imitation.

(*b*) The German Works Councils are specifically enjoined (so far apparently without much result) to assist the management of the works by their advice. In England a number of works committees are reported to have made valuable suggestions on questions of technique and the organization of work, the most remarkable instance being a memorandum by the shop stewards' committee of the British Westinghouse Company on foundry management, which caused the company to rescind its decision to close down its foundry. Such committees may also bring forward the inventions of individuals and see that they are duly considered and justly rewarded. The feeling that inventive power is allowed to go to waste by unreceptive officials, and that production and earnings

are kept down by inefficient organization, seems to be among the strongest elements in the demand for "workers' control"; and it would appear that there is here a large field for the acquisition by works committees of a real positive and constructive part in the government of industry.

With all these forms of joint control within the individual firm—Co-partnership, the employee-director, the joint committee—it is desirable that more and bolder experiments should be made. But it is useless to shut our eyes to the difficulty which besets all of them—the difficulty suggested by Capitalism's golden rule. There is, as we have seen, a real infraction of that rule in so far as directors and managers administer the property of shareholders: but the infraction is a limited one, because even if the motives for bold and efficient action on the part of directors and managers are weakened, their general *aim* is substantially the same as that of those for whom they are acting—namely, the prosperity of the individual company. But in the mind of the workman-director or committeeman this aim is almost necessarily in competition with another and in many respects a nobler one—the well-being of his fellow-workmen in the trade as a whole. The whole impulse of modern Trade Unionism is towards achieving and maintaining the solidarity of labour throughout the whole of each industry—a policy the pursuit of which may well call for a certain indifference on the part of the individual workman to the financial prosperity of his own firm, while at times of crisis the conflict of loyalties thus engendered may easily lead to an impasse. For this reason the

path of joint control is likely to be rougher in the great staple competitive industries than in those, such as gas or railways, where the individual firm covers the whole industry in its area, or in a small trade, such as cocoa manufacture, which is dominated by a few exceptionally enlightened firms.

With this difficulty is intertwined another—the objection (based on a mixture of right feeling and defective analysis) which is felt by many members of the working class to Capitalism's obvious test of business efficiency and success—the making of profit for individuals. Here, indeed, it is possible to detect signs of a *rapprochement* between conflicting points of view. On the one hand we find a particularly advanced body of Trade Unionists, the British miners, accepting (it is true, under the stress of defeat) the most elaborate and far-reaching scheme of profit-sharing yet devised. On the other hand, "the modern professional director may be almost as reluctant as the workman himself to see the proceeds of the year's trading slopped away in dividends." His test of success is still indeed profits, but profits to be used not for the immediate enrichment of individuals, but for the increase of the power and stability of the whole undertaking. "The undertaking itself, now grown into an objective personality, creates its own means just as it creates its own tasks."[1] It does not seem too fanciful to hope that the "Guild spirit" may progressively permeate private enterprise to this extent—that the desire of the leaders for financial results and the desire of the rank and file for personal independence from the capitalist may find a partial

[1] Walter Rathenau, *In Days to Come*, p. 123.

reconciliation in an impersonal loyalty to the institution of which both are servants.

§ 3. *Joint Control on a National Scale.* Even so, however, the permanent distinction and the occasional disharmony between the aims of the national Trade Union and those of the individual enterprise remain unresolved. We must turn, therefore, for a moment to the other branch of the celebrated "Whitley scheme" —the establishment in each trade of joint councils of employers and employed representing the trade as a whole. Full-blown councils of this character are in active operation in Great Britain in about sixty trades, including wool, pottery, printing, boots and the mercantile marine, while the four great railways and the departments of the Civil Service each possess organs of a similar kind. Some of these councils, as was to be expected, have tended to degenerate into a new form of machinery for wrangling about wages and hours, but others have attempted to take their constructive duties seriously.[1] The promotion of research, the development of scientific accounting, the study of tariff policy, "the safeguarding and development of the industry as a part of national life" —such are among the declared objects of these institu-

[1] "The Pottery Industrial Council, at a meeting on 12th October, had before them a variety of subjects, including statistics of unemployment amongst pottery workers, steps to be taken to procure lower railway freightage rates, . . . statistics of profits and turnover in the pottery industry, . . . the effect of industrial conditions on the health of young persons, the interrupted apprenticeship scheme, . . . pottery scholarships and Works Committees."—*Labour Gazette*, Nov., 1922.

The Building Council was also exceptionally active until in 1922 the employers' side withdrew *en bloc*.

tions. It is not to be expected that in such high matters the initiative should often come from the workers' side. Even in appraising the most remarkable instance of joint control which has hitherto appeared in British industry—the Cotton Control Board which ruled the Lancashire cotton trade during the war—we must take heed of the authoritative statement that "the operatives' leaders fulfilled essentially the role of a friendly opposition, now pleading for concessions, now issuing warnings, but at no time playing an equal part in the determination of policy." [1] We must expect, too, that such bodies should sometimes show a somewhat unhealthy interest in questions of price maintenance and tariff concession. But these seem inadequate grounds for condemning the whole movement out of hand as a failure and a sham.

There are in particular two problems with which it would seem that such councils are, or may come to be, peculiarly fitted to deal. The first is the problem of the trade cycle. We have suggested (Ch. VII, § 3) that in this matter the exclusion of the worker from any share in the government of industry constitutes a real grievance, since he runs herein risks which are inevitably great, and which are rendered greater by the relative indifference of the capitalist to the fluctuating character of industrial activity. Further we have suggested that in times of boom the immediate interest of the individual firm is frequently opposed to the permanent interest of the trade as a whole, so that the matter is emphatically one for joint action. There is a pretty strong case to be made in favour of dealing with the

[1] Henderson, *The Cotton Control Board*, p. 11.

problem of unemployment, when once again it assumes normal and manageable dimensions, so far as possible trade by trade, thereby increasing the efficiency of administration, furnishing each trade with an incentive to reduce its own fluctuations, and throwing the residual burden (in the form of increased price) on the consumer of "fluctuating" products rather than on the general tax-payer. At present the grave condition of coal-mining and other industries, and the urgent need to encourage the mobility of labour, form an overwhelming obstacle to the adoption of this policy. But if it should become possible to adopt it in the future, here is a fruitful field for the joint industrial council. Whether by compulsory levies and self-denying ordinances in times of boom, or by the milder methods of mutual publicity with regard to contracts accepted and the scientific study of the movements of demand, it should not be beyond the bounds of possibility for each well-organized trade to make a serious effort to deal in common with the worst evil of Capitalism; and in this matter the compelling interest of the working class in stability may be expected to bring a wholesome influence to bear on industrial policy.

The second problem which in some trades calls for continuous joint action is that which led in 1922 to disastrous conflict in the British engineering industry—the progressive supersession of certain kinds of technical skill by increasingly fool-proof machinery. Obstructive action by the skilled workmen in an individual firm is clearly futile: no firm can afford to be left behind in the adoption of the most economical methods of production. Obstructive action by the Trade Union throughout the whole trade is equally doomed to

failure in the long run, for the interest both of Society as a whole and of the unskilled worker is in this matter on the employer's side. But it does seem reasonable that by joint action for the gradual introduction of inevitable changes and for the re-training and re-absorption of the labour thus superseded, a well-organized trade should make a strenuous endeavour to minimize the wreckage of legitimate expectations which is caused by the fevered progress of industrial technique.

In Germany an attempt has been made to associate the consumer in the joint government of industry. The constitution imposed by statute upon the coal industry in 1919 is an extraordinary farrago of cartellised Capitalism, Syndicalism, State Socialism and Consumers' Co-operation. The nominal head of the industry is the Coal Council, a body of sixty persons, comprising representatives of the State, the co-operative societies and the consuming industries as well as of employers and employed. It seems generally agreed that this body is a mere phantom, and that the real power has lain in the hands of the Coal Association, which, while nominally the executive organ of the Council and containing representatives of the workmen and consumers, is in reality a kind of central office of the independent capitalist cartels. This grandiose chimera, with its counterparts in the electrical and potash industries, is almost all that is left of the gigantic plan for the reorganization of German industry under the joint management of employers, employed, consumers and State which was launched by Herr Wissel, the Federal Minister of Public Economy, in the early days of 1919.

Almost all—for there is one very important element of his scheme which has survived and flourished. In pursuance of Article 165 of the Constitution of the German Republic, there met for the first time on June 30, 1920, the Federal Economic Council—"the world's first Parliament of Business." "The Council's competence extends over every branch of finance, industry and trade, and over all social and labour questions connected therewith. Its 320 members have Parliamentary immunity, and are paid salaries. They are elected, mainly by private associations of the respective interests, in eight groups, which represent agriculture, forestry, gardening and fisheries, industry, trade banking and insurance, communications, handwork, consumers (house owners, tenants, housekeepers [? hotel-keepers], domestic servants, restaurant keepers and the Communes), officialdom and the liberal professions, and there are two other groups, one chosen by the Reichsrat to represent specific local interests, the other by the Government from among citizens qualified to serve the national economic cause."[1] The present Council is provisional only, and neither its composition nor its powers are precisely as contemplated in the Constitution. All bills involving social and economic policy have to be submitted to it for discussion before they are presented to the Reichstag; and the Government must consult a committee of the Council before taking administrative action on economic matters. The right laid down in the Constitution of initiating economic bills, which must then be introduced into the Reichstag even if the Government does

[1] *Economist*, July 10, 1920, p. 52.

not approve of them, has not been conferred on the existing Council: but even so it has considerable opportunities, which seem to have been actively employed, for the exertion of influence.

In England the great Industrial Conference which was summoned to advise the Government in the troublous days of 1919 bid fair at one time to develop into just such an economic annexe to the British Constitution, and then suddenly vanished into thin air. It may be hazarded that sooner or later we shall be driven to take a leaf out of the German book. The apologists of Guild Socialism have ransacked mediæval political theory for support for the view that there are human associations prior to and independent of the State, entitled to deal with the State on equal terms. Their extreme conclusions would be subversive of political democracy as ordinarily understood, and cannot be accepted. But the growing congestion of the Parliamentary time-table and the deep-seated resentment of the business world against Governmental interference combine to make it desirable that not only each separate industry, but also industry as a whole, should be encouraged so far as possible to settle its own affairs.[1]

§ 4. *Conclusion.* The high hopes widely cherished only a few years since of the speedy establishment of a new order in industry have faded and shrivelled away. Capitalism to all appearances has been re-established on its throne, largely, by a curious irony, through the agency of a most patent proof of its own shortcomings—the occurrence of a prolonged and

[1] The proceedings of the Mond-Turner Conference (1927) are an encouraging sign that this view is gaining ground.

severe depression of trade. At such a time there is a real danger lest in those who desire change disappointment should breed despair, and in those who detest it victory should breed insolence. It would be as unreasonable and dangerous now to suppose that the new ideas have vanished for ever from the world as it was a few years ago to suppose that they could instantaneously transform it. It seems certain that for many years to come Private Enterprise will remain the dominant form of industrial organization; but it seems also reasonable to hope, and to insist, that Private Enterprise should become less chaotic, less secretive, less tyrannical than in the past—more determined to achieve a real control over the blind forces that make for economic instability and dislocation, more ready to lay its financial cards upon the public table, more willing to respect and to use in the service of industry the self-governing instincts of the millions who carry out its commands. And by its side there is plenty of room for Collectivism in selected cases, as well as for the Co-operative Society and the self-governing league of producing units on the Building Guild model.

Let us in conclusion indulge our fancies a little, and with the help of a few quotations and our old watchwords of differentiation and integration take a farewell survey of the economic philosophies of the world. Hear first Adam Smith on the virtues of natural liberty. "Every individual is continually exerting himself to find out the most advantageous employment for whatever capital he can command. It is his own advantage indeed and not that of the society which he has in view. But the study of his own advantage naturally, or rather

necessarily, leads him to prefer that employment which is most advantageous to the society." Here is the gospel of differentiation—the philosophy of the academic individualist.

Now hear once more our old friend the Chairman of Amalgamated Industrials (p. 34) on his ideals. "There is not a string that we are neglecting in this great aspiration of ours that we should be self-contained, and be able to carry on the business in such a way that in cycles of depression and prosperity it will give a constant regular dividend to the shareholders and secure their principal." Here is the gospel of integration for power—the philosophy of the business boss.

Now for one more voice—the voice of Rupert Brooke, describing Communism as he found it, or thought he found it, in the islands of the South Seas. "In my part of the world, if we want to build a canoe, we all put flowers in our hair, and take the town hatchet, and Bill's axe, and each his own hunting-knife, and have a bit of pig each for luck, and a drink, and go out. And as we go we sing. And when we have got to a large tree we sit round it. And the two biggest men take the axes and hit the tree in turn. And the rest of us beat our hands rhythmically and sing a song saying, 'That is a tree—cut down the tree—we will make a boat,' and so on. And when those two are tired, they drink and sit, and other two take their places. . . . And when all's done, we go home and sing all night, and dance a great deal. For we have another canoe. And when you have got a lot of other Goddites together and started to build a Cathedral, why, you'll see what fun it is working together, instead of in a dirty little corner alone, sus-

picious, greedy, competitive, hating all the world, like a modern artist or a French peasant or a moneylender or a golfer." Here is the gospel of integration for fun—the philosophy of the poet.

The philosophy of the academic individualist does not fit all the facts: the philosophy of the business boss will not permanently satisfy the heart of man: the philosophy of the poet is not at present a workable proposition. Fettered by the insufficiency of the earth and the chronic disappointingness of human nature, Society stumbles clumsily forward on the only half-realized quest for a more sensible and kindly way of conducting its affairs. In the economic world, as in the spiritual world with which it is so perplexingly intertwined,

> There is no expeditious road
> To pack and label souls for God
> And save them by the barrel-load.

But if we are neither false to our visions nor immoderate in our hopes we need not despair of witnessing the slow growth of something worth calling Freedom in industrial affairs: even though we know that in any society which we are likely to live to see, old Bill Bailey will continue to think more about his early broccoli than about the mysteries of cost-accounting, and young Alf Perkins to take more interest in the prospects of Manchester United than in those of cotton cultivation in equatorial Africa.